

2001-03 AR Annual Rpt (10K) for 2000.txt

-----BEGIN PRIVACY-ENHANCED MESSAGE-----

Proc-Type: 2001,MIC-CLEAR

Originator-Name: webmaster@www.sec.gov

Originator-Key-Asymmetric:

MFgwCgYEVQgBAQICAF8DSgAWRwJAW2sNKK9AVtBzYZmr6aGj1wyK3XmZv3dTINen

TWSM7vrzLADbmYQaionwg5SDW3P6oaM5D3tdezXmm7z1T+B+twIDAQAB

MIC-Info: RSA-MD5,RSA,

Ef1tewApV17tUyw00Zf5uf00ve1oVCX7YFOLUXZ0f6Tq+DxNi1BfCSHGz7XNQBDj

6wt6h1Fu04uDeug/pqR/gg==

<SEC-DOCUMENT>0000898430-01-001126.txt : 20010402

<SEC-HEADER>0000898430-01-001126.hdr.sgml : 20010402

ACCESSION NUMBER: 0000898430-01-001126

CONFORMED SUBMISSION TYPE: 10-K405

PUBLIC DOCUMENT COUNT: 6

CONFORMED PERIOD OF REPORT: 20001231

FILED AS OF DATE: 20010330

FILER:

COMPANY DATA:

COMPANY CONFORMED NAME:

CENTRAL INDEX KEY:

STANDARD INDUSTRIAL CLASSIFICATION:

IRS NUMBER:

STATE OF INCORPORATION:

FISCAL YEAR END:

ATLANTIC RICHFIELD CO /DE

0000775483

PETROLEUM REFINING [2911]

230371610

DE

1231

FILING VALUES:

FORM TYPE: 10-K405

SEC ACT:

SEC FILE NUMBER: 001-01196

FILM NUMBER: 1587901

BUSINESS ADDRESS:

STREET 1: 333 S HOPE STREET

CITY: LOS ANGELES

STATE: CA

ZIP: 90071

BUSINESS PHONE: 2134863511

</SEC-HEADER>

<DOCUMENT>

<TYPE>10-K405

<SEQUENCE>1

<FILENAME>0001.txt

<DESCRIPTION>FORM 10-K

<TEXT>

<PAGE>

2000

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
March 30, 2001

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act
of 1934

[No Fee Required]

Page 1

USEPA SF



1278642

ARCO - CDA dm - 0675

For the fiscal year ended December 31, 2000

Commission file number 1--1196

[ARCO LOGO]
a part of BP

Atlantic Richfield Company
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

23-0371610
(I.R.S. Employer
Identification No.)

333 South Hope Street, Los Angeles, California 90071
(Address of principal executive offices)
(Zip Code)

Registrant's telephone number, including area code: (213) 486-3511
Securities registered pursuant to Section 12(b) of the Act:

<TABLE>
<CAPTION>

| Title of each class ----- | Name of each exchange on which registered ----- |
|--|---|
| <S> \$3.00 Cumulative Convertible Preference Stock (\$1 par value) | <C> New York Stock Exchange |
| \$2.80 Cumulative Convertible Preference Stock (\$1 par value) | Pacific Exchange, Inc. |
| | New York Stock Exchange |
| | Pacific Exchange, Inc. |

</TABLE>

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X . No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

The aggregate market value of the preference stock (which vote as a single class with the indirect holder of all of the ARCO Common Stock, BP Amoco p.l.c.) held by nonaffiliates of the registrant on December 31, 2000, based on the closing price on the New York Stock Exchange composite tape on that date, was \$187,760,402. ARCO's Common Stock was delisted on April 18, 2000, following the merger with BP Amoco p.l.c.

Number of shares of \$3.00 Preference Stock, \$1 par value, outstanding as of December 31, 2000: 35,437.

Number of shares of \$2.80 Preference Stock, \$1 par value, outstanding as of December 31, 2000: 402,665.

<PAGE>

TABLE OF CONTENTS

PART I
Page 2

2001-03 AR Annual Rpt (10K) for 2000.txt

<TABLE>
<CAPTION>
Item

Page

| <C> | <S> | <C> |
|-----------|--|-----|
| 1. and 2. | Business and Properties..... | 1 |
| | The Company..... | 1 |
| | ARCO's New Structure following Acquisition by BP..... | 1 |
| | BP Combination; Change of Control of ARCO..... | 1 |
| | Sale of ARCO's Businesses Pursuant to FTC Mandate..... | 2 |
| | Delisting and Retirement of ARCO Debt Securities..... | 3 |
| | Merger Agreement between ARCO and Vastar..... | 3 |
| | Redemption of ARCO Preference Stocks..... | 3 |
| | Exploration and Production Operations..... | 4 |
| | Refining and Marketing Operations..... | 6 |
| | All Other Operations..... | 7 |
| | Capital Program..... | 7 |
| | Patents..... | 7 |
| | Competition..... | 7 |
| | Human Resources..... | 7 |
| | Research and Development..... | 8 |
| | Environmental Matters..... | 8 |
| 3. | Legal Proceedings..... | 13 |
| | The Company..... | 13 |
| | Environmental Proceedings..... | 18 |
| | Other Litigation..... | 18 |
| 4. | Submission of Matters to a Vote of Security Holders..... | 19 |

PART II

| | | |
|----|--|----|
| 5. | Market for Registrant's Common Equity and Related Stockholder Matters..... | 20 |
| 6. | Selected Financial Data..... | 21 |
| 7. | Management's Discussion and Analysis of Financial Condition and Results of Operations..... | 22 |
| | Introduction..... | 22 |
| | Results of Segment Operations..... | 22 |
| | Results of Consolidated Operations..... | 28 |
| | Analysis of Cash Flows and Financial Condition..... | 31 |
| | Market-Sensitive Instruments and Risk Management..... | 32 |
| | Statements of Financial Accounting Standards Not Yet Adopted..... | 33 |
| | Safe Harbor for Forward-Looking Statements..... | 34 |
| 8. | Financial Statements and Supplementary Data..... | 35 |
| | Notes to Consolidated Financial Statements..... | 42 |
| | Supplemental Information (Unaudited)..... | 69 |
| 9. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure..... | 73 |

</TABLE>

(i)

<PAGE>

TABLE OF CONTENTS--(Continued)

<TABLE>
<CAPTION>
Item

Page

PART III

| <C> | <S> | <C> |
|-----|---|-----|
| 10. | Directors and Executive Officers of the Registrant..... | 74 |

Page 3

| | |
|--|----|
| 2001-03 AR Annual Rpt (10K) for 2000.txt | |
| Executive Officers of ARCO..... | 74 |
| Directors of ARCO..... | 75 |
| Compliance with Section 16(a) of the Securities Exchange Act of 1934..... | 76 |
| 11. Executive Compensation..... | 77 |
| Pre-Merger and Change of Control Compensation of Certain of ARCO's Former Executive Officers..... | 77 |
| Change of Control Benefits Received by Certain Former ARCO Executive Officers..... | 77 |
| Pre-Merger and Change of Control Summary Compensation Table... Aggregated ARCO Option Exercises in 2000 and ARCO Option Values As of April 17, 2000..... | 79 |
| Estimated Regular Retirement Benefits..... | 82 |
| Post-Merger Compensation of Current Executive Officers..... | 83 |
| Post-Merger Summary Compensation Table..... | 84 |
| Compensation of Directors..... | 84 |
| 12. Security Ownership of Certain Beneficial Owners and Management..... | 85 |
| Voting Stock of ARCO Owned by "Beneficial Owner"..... | 85 |
| Stock of BP Amoco Owned by Directors and Executive Officers..... | 85 |
| 13. Certain Relationships and Related Transactions..... | 86 |
| Controlling Shareholder..... | 86 |
| Related Party Transactions..... | 86 |
| PART IV | |
| 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K... Exhibits..... | 87 |
| Reports on Form 8-K..... | 87 |
| Signatures..... | 91 |
| Schedule II--Valuation and Qualifying Accounts..... | 92 |
| 93 | |

</TABLE>

(ii)

<PAGE>

PART I

ITEMS 1. AND 2. BUSINESS AND PROPERTIES

The Company

The company began operations in 1866 as the Atlantic Petroleum Storage Company. The company's present name, Atlantic Richfield Company (ARCO), was adopted in 1966 after Richfield Oil Corporation was merged into the company. Sinclair Oil Corporation was merged into ARCO in 1969. ARCO acquired The Anaconda Company in 1977. ARCO became a Delaware corporation in 1985. ARCO acquired Union Texas Petroleum Holdings, Inc. (UTP) in 1998. On April 18, 2000, ARCO merged with a subsidiary of BP Amoco p.l.c. (BP), which indirectly holds all of the outstanding common stock of ARCO. In September 2000, following ARCO's purchase of the publicly held shares of Vastar Resources, Inc. (Vastar), Vastar merged with a subsidiary of ARCO, bringing ARCO's ownership in Vastar to 100%.

ARCO's principal executive offices are currently at the ARCO Center, 333 South Hope Street, Los Angeles, California 90071 (Telephone 213-486-3511).

ARCO is a global oil and gas enterprise operating in two segments, exploration and production and refining and marketing. Its upstream exploration and production operations are focused primarily in the Gulf of Mexico and the Midcontinent in the United States, the United Kingdom North Sea, Indonesia, China and Algeria. ARCO's downstream refining and marketing operations are located primarily in the western United States. These include two refineries, branded consumer marketing outlets in six western states and British Columbia, Canada, and supporting pipelines and terminals.

ARCO's New Structure following Acquisition by BP

As discussed in the following section, as of April 18, 2000, ARCO became part of the BP Group, a worldwide integrated oil and gas and chemical business. As part of the BP Group, the ARCO businesses have been structured into business units, some of which were combined with other businesses from the BP Group. The operations within the BP Group are managed through four main businesses, Exploration and Production, Gas and Power, Refining and Marketing and Chemicals. Gas and Power and Chemical operations are not material for ARCO.

The financial position and results of operations of ARCO should be understood in the context of this relationship.

The financial statements of ARCO reflect the historical costs to the previous shareholder group and accordingly, do not reflect any purchase accounting adjustments related to the acquisition of ARCO by BP.

BP Combination; Change of Control of ARCO

On April 18, 2000, the combination of BP and ARCO was completed by the merger of Prairie Holdings, Inc (a subsidiary of BP) with and into ARCO, pursuant to the terms of the merger agreement dated March 31, 1999, as amended through March 27, 2000 (Merger Agreement). Pursuant to the Merger Agreement, each share of outstanding common stock of ARCO (except for any such shares owned by BP, ARCO or any subsidiary of BP or ARCO) was converted into the right to receive 1.64 BP American Depositary Shares (ADSS) or, subject to the timely receipt of elections therefor, 9.84 BP Ordinary Shares. In addition, the outstanding ARCO common stock was delisted from the New York Stock Exchange and other exchanges on which it had been listed. In connection with the merger, on April 18, 2000, ARCO issued 324,711,290 new shares of common stock to BP. Later on April 18, 2000, BP transferred all such shares to BP America Inc., a wholly owned subsidiary of BP, so that BP owns indirectly all of the currently outstanding common stock of ARCO. As the holder of all the outstanding common stock of ARCO, none of which is publicly traded, BP is the controlling shareholder of ARCO.

1

<PAGE>

On April 18, 2000, in connection with the combination of ARCO and BP, PricewaterhouseCoopers LLP (PWC) resigned as ARCO's independent accountants. Ernst & Young, L.L.P., who also act as independent auditors for BP, were appointed as ARCO's independent auditors on April 27, 2000.

ARCO's outstanding shares of \$2.80 and \$3.00 Preference Stock remained listed on the New York Stock Exchange. Pursuant to the Merger Agreement, each share of \$2.80 Preference Stock became convertible into 7.872 ADSS and each share of \$3.00 Preference Stock became convertible into 22.304 ADSS. BP has fully and unconditionally guaranteed the payment of dividends on, the redemption price and the liquidation preference that may become payable in respect of shares of both classes of Preference Stock.

Following the merger, as a result of the number of holders of the Preference Stocks, ARCO remained a reporting company within the meaning of the Securities and Exchange Act of 1934 (1934 Act). As disclosed below, on March 28, 2001 ARCO issued a notice of redemption for all of the outstanding shares of these two classes of Preference Stock. Following the redemption date, ARCO will cease to be a reporting company under the 1934 Act.

Holders of the Preference Stocks and others may obtain copies of the BP Report on Form 20-F for the year ended December 31, 2000 by telephone from BP Group Shareholder Services, toll free at 1-800-638-5672.

Included in the merger agreement was a provision requiring BP to keep in place for two years following the merger ARCO's change of control severance programs. The benefits associated with those programs resulted in ARCO recording a charge of \$560 million for the year ended December 31, 2000 for ARCO executives and employees who have been or will be terminated prior to April 18, 2002 as a result of the merger and related asset sales.

Other merger costs related to facilities closures with no future economic

benefit, payments to legal and investment consultants in connection with negotiation and consummations of merger, and shutdown costs related to UK and certain other overseas locations.

Sale of ARCO's Businesses Pursuant to FTC Mandate

On March 15, 2000, pursuant to an understanding with the Federal Trade Commission (FTC) in conjunction with its review of the acquisition of ARCO by BP, ARCO entered into an agreement to sell its Alaskan businesses to Phillips Petroleum Company (Phillips) for approximately \$6.5 billion cash, subject to purchase price adjustments (plus up to an additional \$500 million based on the price realized on post-closing production). Under the purchase and sale agreement, which was amended on April 6, 2000, ARCO agreed to sell all of the outstanding shares of ARCO Alaska, Inc., together with certain other subsidiaries of ARCO engaged principally in the operation of ARCO's Alaskan businesses, along with certain pipeline and marine assets associated with the transport of Alaskan crude oil.

In the second quarter of 2000 ARCO completed the sale of its Alaskan operations, comprising oil and gas production, crude oil marine transportation and related crude oil inventory, for proceeds totaling approximately \$6.2 billion and realized an after-tax gain of approximately \$1.8 billion. The net book value of those assets at the time of the sale was approximately \$3.2 billion.

In the third quarter of 2000 ARCO completed the sale of its Alaskan pipeline operations, thereby completing the sale of all Alaskan operations mandated by the FTC in obtaining approval for the combination of ARCO and BP. ARCO received proceeds of \$308 million and recorded an after-tax loss of \$34 million. See Note 4 of Notes to Consolidated Financial Statements.

In the third quarter of 2000 ARCO also completed the sale of the remaining pipeline assets mandated by the FTC. On July 20, 2000, ARCO sold certain Midcontinent pipeline assets for \$314 million. See Note 5 of Notes to Consolidated Financial Statements.

2

<PAGE>

Delisting and Retirement of ARCO Debt Securities

On August 13, 2000, ARCO terminated the registration under the Securities Act of 1933 of all of its outstanding publicly traded debt securities. In connection with the deregistration, the three classes of debt securities that had been listed on the New York Stock Exchange were delisted.

On November 29, 2000, ARCO made a cash tender offer for up to \$1,045,790,000 of its outstanding noncallable debt securities having interest rates ranging from 8 1/4% to 9 7/8% and maturity dates ranging from March 1, 2016 to March 1, 2032. Through the expiration date of December 8, 2000, ARCO purchased a total of \$1,045,790,000 of debt securities pursuant to the cash tender offer. Subsequent to the closing of the tender offer, ARCO repurchased an additional \$14 million of outstanding debt securities on the open market.

Merger Agreement between ARCO and Vastar

ARCO and Vastar (a subsidiary of which ARCO owned 81.9%) entered into a merger agreement, dated May 24, 2000. The agreement provided for the acquisition by ARCO of Vastar's publicly held minority stockholding at a price of \$83 per share. On September 15, 2000, Vastar's common stock minority shareholders approved the merger agreement between ARCO and Vastar. Following the approval, 18,252,609 shares were purchased by ARCO at a price of \$83 per share for a total purchase price of \$1,618 million, including costs related to the transaction. Vastar became a 100% owned subsidiary of ARCO.

Redemption of ARCO Preference Stocks

On March 28, 2001, ARCO called for the redemption of all of the outstanding shares of its \$3.00 Preference Stock and its \$2.80 Preference Stock on April 27, 2001 (Redemption Date). As of December 31, 2000, there were 35,437 shares of \$3.00 Preference Stock and 402,665 shares of \$2.80 Preference Stock outstanding.

Upon redemption, for each share of \$2.80 Preference Stock redeemed, the Company will pay to the holder, as required by the Company's Certificate of Incorporation, the stated redemption price of \$70.00 per share, together with the amount of accrued and unpaid dividends on each such share (whether or not earned or declared) to the Redemption Date, plus a voluntary supplemental cash payment in the amount, if any, required to cause the total per share cash payment to be received by such holder (\$2.80 Redemption Payment), to equal the market value of 7.872 BP ADSS. On or prior to April 20, 2001 (Conversion Deadline), each share of \$2.80 Preference Stock is convertible into 7.872 BP ADSS.

Upon redemption, for each share of \$3.00 Preference Stock redeemed, the Company will pay to the holder, as required by the Company's Certificate of Incorporation, the stated redemption price of \$82.00 per share, together with the amount of accrued and unpaid dividends on each such share (whether or not earned or declared) to the Redemption Date, plus a voluntary supplemental cash payment in the amount, if any, required to cause the total per share cash payment to be received by such holder (\$3.00 Redemption Payment), to equal the market value of 22.304 BP ADSS. On or prior to the Conversion Deadline, each share of \$3.00 Preference Stock will be convertible into 22.304 BP ADSS.

The market value of the BP ADSS will be determined by the average of the last sale prices for a BP ADS on the New York Stock Exchange over the four trading days ending on the last trading day prior to the Redemption Date.

In accordance with the Company's Certificate of Incorporation, upon redemption of both classes of Preference Stocks, the holders thereof will have no interest in or claim against the Company or its agents other than the right to receive the \$2.80 or \$3.00 Redemption Payment, as applicable, upon the proper surrender of the shares of Preference Stock, subject to the conversion right described above.

No commission or other remuneration will be paid or given, directly or indirectly, in connection with the conversion of Preference Stock into BP ADSS.

3

<PAGE>

Exploration and Production Operations

General

ARCO conducts its oil and gas exploration and production operations primarily in the Midcontinent and offshore Gulf of Mexico in the United States, and internationally in the United Kingdom North Sea, Indonesia, China and Algeria.

Reserves

Proved oil and gas reserves as of December 31, 2000

<TABLE>

<CAPTION>

| | Petroleum Liquids (Million barrels) | | Natural Gas (Billion cubic feet) | |
|--------------------------------|--|------------------|-------------------------------------|------------------|
| | U.S. | International(a) | U.S. | International(b) |
| <S> | <C> | <C> | <C> | <C> |
| Proved reserves..... | 451 | 646 | 2,841 | 3,705 |
| Proved developed reserves..... | 311 | 365 | 2,464 | 2,201 |

</TABLE>

- (a) Includes 75 MMB proved and 43 MMB developed attributable to equity interests.
 (b) Includes 754 BCF proved and 220 BCF developed attributable to equity interests.

Additional information concerning oil and gas producing activities and estimates of proved oil and gas reserves can be found under the caption Supplemental Information, Oil and Gas Producing Activities.

Production

Production volumes

<TABLE>

<CAPTION>

| Years Ended December 31 | Petroleum Liquids (Barrels per day) | | Natural Gas (Million cubic feet per day) | |
|----------------------------|--|---------------|--|---------------|
| | U.S. | International | U.S. | International |
| <S> | <C> | <C> | <C> | <C> |
| 2000..... | 232,900 | 121,100 | 1,247 | 1,044 |
| 1999..... | 464,300 | 159,100 | 1,259 | 1,119 |
| 1998..... | 527,600 | 130,400 | 1,175 | 929 |

</TABLE>

Sales Prices and Production Costs

Average sales prices and production costs

<TABLE>

<CAPTION>

| | | Years Ended December 31 | | | | |
|--|--|-------------------------|---------------|---------|---------------|--------|
| | | 2000 | | 1999 | | 1998 |
| | | U.S. | International | U.S. | International | U.S. |
| | | | | | | |
| <S> | | <C> | <C> | <C> | <C> | <C> |
| Average sales price (including transfers) per barrel of petroleum liquids produced..... | | \$23.31 | \$22.00 | \$12.83 | \$14.39 | \$9.43 |
| \$11.07 | | | | | | |
| Average lifting cost per equivalent barrel of production..... | | 3.67 | 4.20 | 3.14 | 3.73 | 3.34 |
| 3.89 | | | | | | |
| Average sales price per thousand cubic feet (MCF) of natural gas produced..... | | 3.45 | 2.61 | 1.99 | 2.48 | 1.82 |
| 2.53 | | | | | | |

</TABLE>

4

<PAGE>

Exploration and Drilling Activity

wells drilled to completion

<TABLE>

<CAPTION>

| | Years Ended December 31 | | | | | |
|---------------------|-------------------------|---------------|------|---------------|------|---------------|
| | 2000 | | 1999 | | 1998 | |
| | U.S. | International | U.S. | International | U.S. | International |
| | <C> | <C> | <C> | <C> | <C> | <C> |
| <S> | | | | | | |
| Net productive | | | | | | |
| exploratory wells | | | | | | |
| drilled..... | 28 | 5 | 29 | 5 | 32 | 10 |
| Net dry exploratory | | | | | | |
| wells drilled..... | 12 | 3 | 16 | 4 | 29 | 10 |
| Net productive | | | | | | |
| development wells | | | | | | |
| drilled..... | 348 | 40 | 309 | 11 | 573 | 27 |
| Net dry development | | | | | | |
| wells drilled..... | 66 | 1 | 33 | -- | 37 | -- |

</TABLE>

current drilling activities as of December 31, 2000

<TABLE>

<CAPTION>

| | U.S. | International |
|---|------|---------------|
| | <C> | <C> |
| <S> | | |
| Gross wells in process of drilling (including wells | | |
| temporarily suspended)..... | 27 | 18 |
| Net wells in process of drilling (including wells | | |
| temporarily suspended)..... | 20 | 7 |
| waterflood projects in process..... | 1 | 4 |
| Enhanced oil recovery operations..... | 7 | 1 |

</TABLE>

Number of productive wells as of December 31, 2000

<TABLE>

<CAPTION>

| | oil | | Gas | |
|----------------------------------|---------|------------------|-------|---------------|
| | U.S.(a) | International(b) | U.S. | International |
| | <C> | <C> | <C> | <C> |
| | | | | |
| <S> | | | | |
| Total gross productive wells.... | 5,803 | 875 | 4,240 | 616 |
| Total net productive wells..... | 2,025 | 389 | 2,059 | 221 |

</TABLE>

- (a) Includes approximately 1,425 gross and 274 net multiple completions.
 (b) Includes approximately 84 gross and 25 net multiple completions.

Petroleum Rights Acreage

Petroleum rights acreage as of December 31, 2000(a)

<TABLE>
 <CAPTION>

| | Developed Acreage | | Undeveloped Acreage | |
|--------------------|----------------------|-------|------------------------|--------|
| | Net | Gross | Net | Gross |
| | (thousands) | | | |
| <S> | <C> | <C> | <C> | <C> |
| U.S..... | 1,954 | 3,231 | 2,515 | 3,911 |
| International..... | 299 | 741 | 20,961 | 37,014 |
| Total..... | 2,253 | 3,972 | 23,476 | 40,925 |
| | ===== | ===== | ===== | ===== |

</TABLE>

- (a) Includes options and exploration rights.

Delivery Commitments

ARCO has various long-term natural gas sales contracts covering the majority of its production in Indonesia, the United Kingdom North Sea, and China. ARCO's various annual delivery obligations under these contracts are substantially limited to producible reserves from specific fields.

In the Lower 48, Vastar has various long-term natural gas sales commitments under certain long-term gas marketing contracts with cogeneration facilities pursuant to which Vastar delivered an average of 79 MMCFD in 2000. These long-term contracts have an average remaining contract term of approximately 10 years. In 2000, the average price of

5

<PAGE>

gas sold under these contracts was approximately \$2.74 per MCF. There have been no instances in the last three years in which Vastar was unable to meet any significant natural gas delivery commitment.

Refining and Marketing Operations

ARCO's downstream operations primarily include its two refineries on the West Coast and branded retail gasoline outlets in six western states and British Columbia, Canada.

ARCO's two U.S. petroleum refineries are the Los Angeles Refinery in Carson, California and the Cherry Point Refinery near Ferndale, Washington. Both of these refineries have easy access to major supply sources and major markets through ocean-going tankers, pipelines and other transportation facilities.

ARCO currently markets its gasoline under the ARCO(R) trademark. ARCO sells its gasoline at ARCO branded retail outlets located in Arizona, California, Nevada, Oregon, Utah and Washington, and in British Columbia, Canada. The company currently has more than 1,700 branded retail outlets, which include franchisee and company-operated am/pm(R) convenience stores and SmogPros(R) Service Centers, along with traditional service stations. ARCO's am/pm

2001-03 AR Annual Rpt (10K) for 2000.txt
franchises, full scale convenience stores that also sell gasoline, make up about 60% of the retail outlets. ARCO also sells gasoline to dealers and resellers who do not use the ARCO brand in connection with retail sales.

Refinery capacity

<TABLE>
<CAPTION>

Annual Average Operable
Crude Distillation
Capacity(a)
(Barrels per day)

| | 2000 | 1999 | 1998 |
|----------------------------|---------|---------|---------|
| <S> | <C> | <C> | <C> |
| Los Angeles Refinery..... | 260,000 | 260,000 | 260,000 |
| Cherry Point Refinery..... | 223,000 | 222,700 | 202,000 |
| Total..... | 483,000 | 482,700 | 462,000 |

</TABLE>

(a) Measured pursuant to standards of the American Petroleum Institute.

Refinery runs and petroleum products manufactured

<TABLE>
<CAPTION>

Years Ended December 31

| | 2000 | 1999 | 1998 |
|----------------------------------|------------------------------|---------|---------|
| | (Equivalent barrels per day) | | |
| <S> | <C> | <C> | <C> |
| Crude oil refinery runs..... | 415,900 | 423,800 | 449,600 |
| Petroleum products manufactured: | | | |
| Gasoline..... | 227,300 | 239,100 | 225,800 |
| Jet fuels..... | 79,300 | 82,700 | 92,000 |
| Distillate fuels..... | 74,700 | 68,100 | 76,600 |
| Other(a)..... | 74,000 | 82,100 | 93,400 |
| Total(b)..... | 455,300 | 472,000 | 487,800 |

</TABLE>

- (a) Includes chemical products, natural gas liquids (NGLs), petroleum coke (green and calcined) and feedstocks, sulfur, middle-of-barrel specialties and changes in unfinished stocks.
(b) Total manufactured petroleum products volumes exceed total crude oil runs as a result of the expansion of petroleum product through rearrangement of molecular structure and refinery blending of oxygenates.

2001-03 AR Annual Rpt (10K) for 2000.txt
 Refined petroleum product sales

<TABLE>
 <CAPTION>

| | Years Ended December 31 | | |
|--------------------------|------------------------------|---------|---------|
| | 2000 | 1999 | 1998 |
| | (Equivalent barrels per day) | | |
| <S> | <C> | <C> | <C> |
| Petroleum product sales: | | | |
| Gasoline..... | 349,200 | 314,500 | 308,700 |
| Jet fuels..... | 100,000 | 102,300 | 102,800 |
| Distillate fuels..... | 86,400 | 82,900 | 80,600 |
| Other(a)..... | 73,500 | 71,000 | 72,700 |
| Total(b)..... | 609,100 | 570,700 | 564,800 |
| | ===== | ===== | ===== |

</TABLE>

(a) Includes heavy fuel oils, NGLs, calcined and green coke.

(b) The total of petroleum product sales differs from the total of petroleum products manufactured because of a number of factors: the consumption of some products as refinery fuel, the exchange of products with other refiners, changes in levels of product inventory, and the purchase and sale of petroleum products not manufactured by ARCO.

All Other Operations

ARCO's other operations during 2000 comprised its pipeline operations in the Lower 48 and its aluminum operations.

Capital Program

ARCO's capital program includes spending for additions to fixed assets and other capital expenditures. During 2000, the company spent approximately \$2.1 billion for additions to fixed assets.

Future capital expenditures remain subject to business conditions affecting the industry, as well as changes in environmental rules and regulations and the tax laws.

Patents

ARCO owns numerous patents, many of which it makes generally available for license to others in the petroleum industry. ARCO itself is a licensee under certain patents that are available generally to the industry. ARCO's operations are not dependent upon any particular patent or patents or upon any exclusive patent rights.

Competition

ARCO faces intense competition from a number of companies in all of its operations. Many of its competitors are large and have substantial resources. No single competitor dominates either of ARCO's operating segments.

Human Resources

As of December 31, 2000, ARCO had approximately 11,200 full-time-equivalent employees, of whom approximately 10% were represented by collective bargaining

agents.

7

<PAGE>

Research and Development

Total research and development expenses were \$9 million, \$28 million and \$45 million in 2000, 1999 and 1998, respectively.

Environmental Matters

Site Remediation

ARCO is subject to federal, state and local environmental laws and regulations, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA or Superfund), and the Superfund Amendments and Reauthorization Act of 1986 and the Resource Conservation Recovery Act of 1976 (RCRA). These regulations require ARCO to do some or all of the following:

- . Remove or mitigate the effects on the environment at various sites from the disposal or release of certain substances;
- . Perform restoration work at such sites; and
- . Pay damages for loss of use and non-use values.

Environmental liabilities include personal injury claims allegedly caused by exposure to toxic materials manufactured or used by ARCO.

ARCO is currently involved in environmental assessments and cleanups under these laws at federal- and state- managed sites, as well as other clean-up sites, including service stations, refineries, terminals, third party landfills, former nuclear processing facilities, sites associated with discontinued operations and sites that were formerly owned by ARCO or its predecessors. This comprises 148 sites for which ARCO has been named a potentially responsible party (PRP), along with other sites for which no claims have been asserted. The number of PRP sites in and of itself is not a relevant measure of liability because the nature and extent of environmental concerns varies by site and ARCO's responsibility varies from sole responsibility to very little responsibility. Future costs depend on numerous unknown factors such as:

- . Nature and extent of contamination;
- . Timing, extent and method of remedial action;
- . ARCO's proportional share of costs; and
- . Financial condition of other responsible parties.

The environmental remediation accrual is updated at least annually, and at December 31, 2000, was \$1,098 million.

The amount accrued represents the estimated undiscounted costs that ARCO will incur to complete the remediation of sites with known contamination. In view of the uncertainties associated with estimating these costs (such as differences of opinion between ARCO and various regulatory agencies with respect to the appropriate method for remediating contaminated sites, uncertainty as to the extent of contamination at various sites, and uncertainty regarding ARCO's ultimate share of costs at various sites), it is possible that actual costs could be significant. Although these costs might be material to the results of operations in the period in which they are recognized, ARCO does not expect that such costs will have a material effect on ARCO's financial position or equity. See Note 19 of Notes to Consolidated Financial Statements regarding environmental matters.

Approximately 85% of the reserve relates to sites associated with ARCO's discontinued operations. Another significant component relates to currently and formerly owned or operated nuclear processing, and refining and marketing facilities, and other sites that received wastes from these facilities. One site represented 13% of the total accrual. No other site represented more than 8% of the total accrual. Substantially all amounts reserved are expected

<PAGE>

to be paid out over the next 10 years. ARCO is also the subject of certain material legal proceedings described below under the caption "Material Environmental Litigation."

Clean Air

The Federal Clean Air Act Amendments of 1990 (the 1990 Clean Air Act Amendments) and various state and local laws and regulations impose certain air quality requirements. Among other things, the 1990 Clean Air Act Amendments effectively require the manufacture and sale of reformulated and oxygenated gasolines in areas not meeting specified air quality standards. The Environmental Protection Agency (EPA) wintertime oxygenate gasoline program became effective in the fall of 1993. The EPA reformulated gasoline requirements became effective January 1, 1995, for the nine U.S. cities, including Los Angeles and San Diego, and other areas with the worst ozone pollution. The specifications for reformulated gasoline of the California Air Resources Board (CARB), which are stricter than the EPA requirements, became effective for retail sales on and after June 1, 1996. To comply with the EPA air quality requirements and CARB standards, in 1995 ARCO completed major modifications at its Los Angeles Refinery. To comply with federal EPA standards for gasoline, the company has used the oxygenate methyl tertiary butyl ether (MTBE) in making its reformulated gasoline. However, effective January 1, 2003, the State of California has mandated that gasoline in California may no longer include MTBE as the oxygenate component.

In 1993 the South Coast Air Quality Management District (AQMD), which sets air quality standards for a five-county area of Southern California, including Los Angeles County, adopted regulations requiring phased reductions of certain pollutants. By 2003 the Los Angeles Refinery will be required to achieve cumulative reductions from 1992 levels of oxides of nitrogen (NOx) of 63% and oxides of sulfur (SOx) of 83%. As part of the regulations, AQMD created a Regional Clean Air Incentives Market (RECLAIM) program under which regulated firms can earn credits for achieving emission reductions below targeted levels. Those credits may then be bought and sold. The Los Angeles Refinery plans to achieve the requisite levels of emission reductions by a combination of reductions and acquisitions of credits, substantial amounts of which have already been purchased. The AQMD is currently considering modifications to the RECLAIM program, but nothing has yet been finalized.

Environment-Related Expenditures

For the past three years, the company's environment-related expenditures have been comprised of both capital expenditures and operating expenses. Environment-related capital expenditures include the cost of projects to reduce and/or eliminate pollution and contamination in the future and the cost of modifications to the company's manufacturing facilities necessary to comply with the aforementioned federal, state and local air quality laws and regulations. Environment-related operating costs include both costs to eliminate, control or dispose of pollutants, as well as costs to remediate previously contaminated sites. Sites are remediated using a variety of techniques, including on-site stabilization, bioremediation, soil removal, pump-and-treat and other methods as deemed appropriate for each specific site.

For the past three years, the company's environment-related capital expenditures have averaged \$191 million per year. The company anticipates environment-related capital expenditures of approximately \$100 million and \$30 million for 2001 and 2002, respectively. For the past three years, the company's operating expenses for the remediation of previously contaminated properties either compelled or likely to be compelled in the foreseeable future by government or third parties have averaged approximately \$150 million per year. Cash payments for site remediation have averaged \$145 million per year over the same period. The company's operating expenses also include

ongoing costs of controlling or disposing of pollutants. For the past three years, the company estimates that its operating expenses related to these ongoing costs have averaged approximately \$170 million per year.

9

<PAGE>

In addition to the reserve for environmental remediation costs, the company has also accrued, as of December 31, 2000, \$312 million for the estimated cost, net of salvage value, of dismantling facilities as required by contract, regulation or law, and the estimated costs of restoration and reclamation of land associated with such facilities.

Material Environmental Litigation

Pursuant to the authority provided under Superfund, the State of Montana asserted claims against ARCO for compensation for damage to natural resources allegedly arising out of ARCO's or its predecessors' mining and mineral processing activities. In addition, two tribes (Tribes) were granted a limited form of intervention in Montana v. ARCO. The Tribes, as alleged trustees, asserted claims against ARCO for alleged injury to and loss of natural resources located in the Clark Fork River Basin in southwest Montana. The United States Department of Interior also stated an intention to make a claim for natural resource damages in the Clark Fork River Basin. These matters were settled in part in 1999. Remaining for disposition are the State's claims for \$206 million of restoration damages at three sites.

On June 23, 1989, the EPA filed a CERCLA cost-recovery action against ARCO, styled U.S. v. ARCO, et al. (Case No. CV-89-039-BU-PGH), in the United States District Court for the District of Montana, for oversight costs at several of the Upper Clark Fork River Basin Superfund sites. Litigation is proceeding on both the EPA's claims and ARCO's counterclaims against various federal agencies. In the counterclaims, ARCO seeks contributions from the federal agencies for remediation costs and for any natural resource damage liability ARCO might incur in Montana v. ARCO. The settlements in Montana v. ARCO, described above, resolved the claims and counterclaims in U.S. v. ARCO pertaining to one significant site and may provide a framework for possible future settlement of the remaining claims. As part of U.S. v. ARCO, settlement has been negotiated for claims and counterclaims concerning past and future costs associated with the Rocker site, by which ARCO is to pay \$3.4 million. This is in settlement of federal government claims of \$3.9 million for past remediation and oversight costs, and an additional \$0.9 million for future costs. The settlement was filed with the court during August 2000.

On April 26, 2000 the United States District Court for the Central District of California issued a subpoena for production of records to the grand jury regarding the Company's compliance with underground storage tank regulations at retail gasoline facilities. On May 8, 2000, the United States District Court for the Eastern District of California issued a similar subpoena. On May 8, 2000 the District Attorney of Stanislaus County, California informed the Company that the California Regional Water Quality Control Board, Central Valley Region and the Stanislaus County Department of Environmental Resources had alleged that the Company had violated California statutes regarding underground storage tanks, hazardous materials and unlawful business practices. The Stanislaus District Attorney further advised, however, that no decision had been made as to the filing of charges, pending discussions with the Company. On May 17, 2000, the Los Angeles County Department of Public Works informed the Company that it was investigating the Company's compliance with underground storage tank regulations at certain of the Company's retail gasoline facilities in Los Angeles County. On June 6, 2000, the California Attorney General, pursuant to his statutory investigative powers, issued a subpoena for the Company's records regarding underground storage tanks. Moreover, the Company is in the process of conducting a comprehensive audit of all of its underground storage tank facilities in California, Arizona, Nevada, Oregon, Utah and Washington.

ARCO and its subsidiary, Atlantic Richfield Hanford Company (ARHCO), and several other companies who have served as government contractors at the Hanford Nuclear Reservation in south central Washington State are named as defendants in a consolidated complaint in the United States District Court for the Eastern District of Washington, titled In re Hanford Nuclear Reservation Litigation (CY-91-3015-AAM). In October 1994, the Department of Energy (DOE) determined that the government will indemnify ARCO and ARHCO for any judgment or settlement in the action pursuant to the contract between ARHCO and the Atomic Energy Commission and the provisions of the Price-Anderson Act. On April 4, 1997, ARCO was served with a new complaint making allegations

10

<PAGE>

similar to those already pending in the litigation, filed by six individual Native Americans in the United States District Court for the Western District of Washington, purportedly on behalf of classes of Native Americans living near the Hanford Nuclear Reservation. The DOE has indicated that it will indemnify ARCO and ARHCO with respect to this new action as well. This action has been transferred to the United States District Court for the Eastern District of Washington. On August 21, 1998, the court issued a ruling that, if upheld on appeal, should result in the dismissal of ARHCO and ARCO from the case.

Approximately 200 lawsuits were filed in state and federal courts in Alaska seeking compensatory and punitive damages arising out of the Exxon Valdez oil spill in Prince William Sound in March 1989. Most of those suits named Exxon (now ExxonMobil), Alyeska Pipeline Service Company (Alyeska), which operates the oil terminal at Valdez, and the other oil companies which own Alyeska (including ARCO Transportation Alaska, Inc., owned by ARCO until the FTC-mandated sale to Phillips Petroleum in April 2000). Alyeska initially responded to the spill until the response was taken over by Exxon. Alyeska and its owners have settled all of the claims against them under these lawsuits. Exxon has indicated that it may file a claim for contribution against Alyeska (and its owner companies) for a portion of the costs and damages which it has incurred.

ARCO has been named as a defendant in a number of lawsuits involving the manufacture and use of MTBE as a fuel additive and oxygenate. Several other refiners of gasoline in the United States are defendants in some or all of these cases. Lyondell Chemical Company, f/k/a ARCO Chemical Company, is a defendant in many of these matters. There are potential issues regarding indemnification between ARCO and Lyondell, which are unresolved. Generally, these cases allege product liability, negligence and fraud. Plaintiffs allege that MTBE is unreasonably dangerous and has contaminated groundwater, potentially leading to contamination of private and public drinking water supplies. They further allege that ARCO knew, or should have known, that MTBE made gasoline more dangerous, fraudulently concealed this hazard, and promoted the use of MTBE in spite of this risk. The cases are:

South Lake Tahoe Public Utility District (STPUD) vs. ARCO, et al. (Superior Court of the State of California In and For the County of San Francisco, Case No. 999128, filed April 16, 1999) STPUD alleges that MTBE contamination in its drinking water wells was caused by leakage from underground MTBE storage tanks belonging to ARCO and the other defendants.

Communities for a Better Environment (CBE) vs. ARCO, et al. (Superior Court of the State of California In and For the County of San Francisco, Case No. 997103, Second Amended Complaint, filed June 29, 2000) CBE alleges that the environment in California has been damaged by the introduction of MTBE into gasoline. In addition to the legal theories outlined above, CBE includes an action for violation of California's Unfair Business and Professional Code, Section 17-200.

City of Santa Monica vs. ARCO, et. al. (Superior Court of the State of California In and For the County of San Francisco, Case No. 313004, filed June 19, 2000) Santa Monica alleges contamination of its water supply by a number of leaking underground storage tanks, including one owned by ARCO.

Millet vs. ARCO, et. al. (Superior Court of Cumberland County, Maine, Case No. CV-98-367-P-H, filed October 7, 1998) A class action lawsuit brought by a purported class of private well owners in the State of Maine alleging potential or actual damage to their wells. Class certification was denied by the trial court and that denial has been affirmed on appeal. The remaining claims have been resolved for a nominal payment.

Berisha vs. ARCO, et al. (United States District Court for the Southern District of New York, Case No. 00 CIV 1898 [SAS], filed January 14, 2000) A class action lawsuit brought by a purported class of private well owners in the State of New York alleging potential or actual damage to their wells. Multidistrict litigation (MDL) has been established in this court.

Sutton Farms vs. ARCO, et. al. (United States District Court for the Southern District of Florida, Case No. 00-3544, filed September 21, 2000) A class action lawsuit brought in Miami, Florida by a purported class of

11

<PAGE>

private and commercial well owners in 34 states alleging potential or actual damage to their wells. This matter has been transferred to the Berisha court in New York for consolidated handling as part of the MDL.

England v. ARCO, et al. (In the Circuit of the Third Judicial Circuit, Madison County, Illinois, Case No. 00 L 000331, filed April 11, 2000) A class action lawsuit brought in Madison County, Illinois by a purported class of private well owners in 16 states alleging potential or actual damage to their wells. This matter has been transferred to the Berisha court in New York for consolidated handling as part of the MDL.

No class has been certified in any of these cases.

In January 1998, The Pinal Creek Group, consisting of Cyprus Miami Mining Corporation, Inspiration Consolidated Copper Company ("Inspiration") and BHP Copper Inc., f/k/a Magna Copper Company, filed an action for declaratory relief, breach of contract and breach of the covenant of good faith and fair dealing against their insurers for failure to provide defense and indemnity coverage for environmental liabilities arising out of the Pinal Creek Site in Arizona. The complaint estimates the cost to remediate the Pinal Creek site to exceed \$100 million. The action, CV-98-00530, is pending in the Superior Court for the State of Arizona in and for the County of Maricopa. In February 1998, that action was tendered to Atlantic Richfield Company ("ARCO") on behalf of several insurers whom ARCO had agreed to defend, indemnify and hold harmless in connection with such environmental liabilities as part of its settlements with those insurers in the ARCO v. Aetna, et al., omnibus environmental coverage action. The insurers with whom ARCO made such an agreement are Travelers, Century Indemnity Company, successor to CCI Insurance Company, successor to Insurance Company of North America, successor to Indemnity Insurance Company of North America, and Continental Casualty Company. These policies were issued to Anaconda, which merged with ARCO, and included Inspiration as a named insured.

Environmental Matters Relating to International Operations

ARCO's international operations, which are primarily located in the United Kingdom North Sea, Indonesia, China, and Algeria, are conducted in accordance with internationally acceptable environmental standards and are also subject to foreign laws covering environmental matters, as well as to contractual obligations relating to dismantlement and abandonment. To date, ARCO has not incurred any significant expenditures for environmental remediation, is not involved in any environmental cleanup, and has not reserved any amount for environmental remediation, relating to its operations in the United Kingdom North Sea, Indonesia, China, and Algeria. The foreign environmental laws and regulations have not had, and are not presently expected to have, a material adverse effect on ARCO's financial results or position.

Conclusion

Environmental concerns, including the minimization and prevention of environmental contamination from ongoing operations, and the cost-effective remediations of existing contaminated sites, continue to be vital factors in the company's future planning. See Note 19 of Notes to Consolidated Financial Statements and "Environmental Matters."

12

<PAGE>

ITEM 3. LEGAL PROCEEDINGS

The Company

On June 7, 1989, the City of New York, the New York City Housing Authority, and the New York City Health and Hospitals Corporation brought suit in the Supreme Court of the State of New York for the County of New York, City of New York, et al. v. Lead Industries Association, et al. (Case No. 14365/89) against six alleged former lead pigment manufacturers or their successors (including ARCO as successor to International Smelting and Refining Company (IS&R), a former subsidiary of The Anaconda Company), and the Lead Industries Association (LIA), a trade association. Plaintiffs sought to recover damages in excess of \$50 million including (i) past and future costs of abating lead-based paint from housing owned by New York City and the New York City Housing Authority (Housing Authority); (ii) other costs associated with dealing with the presence of lead-based paint in that housing and privately-owned housing; and (iii) any amounts paid by the City or the Housing Authority to tenants because of injuries caused by the ingestion of lead-based paint. Plaintiffs also sought punitive damages and attorney's fees. As a result of various court rulings, the plaintiffs' only remaining claims are for fraud and restitution and indemnity. Two stipulated dismissals have further narrowed the case. The City of New York and the New York City Health and Hospitals Corporation entered into a stipulated order dismissing with prejudice all of their pending claims against ARCO and the other defendants. The remaining plaintiff, the Housing Authority, then entered into another stipulated order dismissing its claims as to all the Housing Authority properties except for two housing projects.

On November 25, 1998, ARCO (as successor to IS&R) was named as a defendant in a purported class action suit, Sabater, et al. v. Lead Industries Association, et al. (Case No. 25533/98), filed in the Supreme Court of the State of New York for the County of Bronx by the mothers of four minor plaintiffs. The complaint also names the LIA and eight former lead pigment/paint manufacturers. The plaintiffs seek, on behalf of themselves and a purported class of children age six and under residing in dwellings in the City of New York containing or presumed to contain lead paint, unspecified compensatory damages and injunctive relief from all defendants, including orders requiring defendants to contribute to a court-administered fund to pay for (i) notification to class members of the dangers of lead-based paint, (ii) abatement of properties where class members reside and to pay for temporary relocation during abatement, (iii) medical monitoring, including screening, testing, diagnosing, and treating of class members, and (iv) attorney's fees. The complaint alleges causes of action against the defendants for strict product liability, conspiracy, concert of action, and enterprise and market share liability.

On August 25, 1992, ARCO (as successor to IS&R) was added as a defendant to a purported class action suit pending in the Court of Common Pleas in Cuyahoga County (Cleveland), Ohio, Jackson, et al. v. The Glidden Company, et al. (Case No. 236835), which seeks on behalf of the three named plaintiffs, and all other persons similarly situated in the state of Ohio, unspecified money damages for injuries allegedly suffered from exposure to lead paint, punitive damages, and an order requiring defendants to remove and abate all lead paint applied to any building in Ohio. The suit names as defendants, in addition to

ARCO, the LIA and 16 companies alleged to have participated in the manufacture and sale of lead pigments and paints and includes causes of action for strict product liability, negligence, breach of warranty, fraud, nuisance, restitution, negligent infliction of emotional distress, and enterprise, market share and alternative liability.

On September 20, 1999, ARCO (as successor to IS&R) was named by 11 homeowners as defendants in a purported class action suit filed in the Circuit Court for Baltimore City, Maryland, Earl Cofield, et al. v. Lead Industries Association, et al. (Case No. 24-C-99-004491). The amended complaint, which also names 13 alleged former manufacturers of lead products, the LIA, and the National Paint and Coatings Association, alleges causes of action for negligent product design and failure to warn, supplier negligence, fraud and deceit, conspiracy, concert of action, aiding and abetting, and strict product liability. The plaintiffs seek, on behalf of themselves and a purported class of

13

<PAGE>

over 10,000 people living in the State of Maryland whose pre-1978 residences allegedly were contaminated with lead-based paint, unspecified compensatory and punitive damages and injunctive relief, including orders requiring defendants to pay for (i) notification to class members about the hazards of lead pigments, (ii) abatement of residences where class members reside, (iii) a public education campaign concerning the hazards of lead pigments, lead paint, and lead poisoning, and (iv) attorney's fees.

On October 12, 1999, ARCO (as successor to IS&R) was named as a defendant in a lawsuit filed in Rhode Island Superior Court, Providence County by Rhode Island Attorney General Sheldon Whitehouse, State of Rhode Island v. Lead Industries Association, et al. (Case No. 99-5226). The complaint, which also names seven former lead pigment manufacturers and the LIA, alleges causes of action for public nuisance, violation of Rhode Island's Unfair Trade Practice and Consumer Protection Act, strict liability, negligence, negligent and fraudulent misrepresentations, civil conspiracy, unjust enrichment, indemnity and equitable relief to protect children. The State of Rhode Island seeks unspecified compensatory and punitive damages, funding for a public education campaign concerning the dangers of lead poisoning and injunctive relief that includes an order requiring defendants to pay for the detection and abatement of lead paint in all public and private buildings within the State that are accessible to children.

On January 26, 2000, ARCO (as successor to IS&R) was named as a defendant in a lawsuit, City of St. Louis v. Lead Industries Association, et al. (Cause No. 002-245), filed in the Circuit Court for the City of St. Louis, Missouri by the City of St. Louis. The complaint, which also names the LIA and seven former lead pigment/paint manufacturers, alleges causes of action for public nuisance, product liability, negligence, negligent and fraudulent misrepresentations, civil conspiracy, unjust enrichment, and indemnity. The City of St. Louis alleges that it was obligated to pay, has paid, and in the future will have to pay for the care of lead poisoned children and adults in the form of medical care, education programs, abatement, and other costs associated with the hazards created by the defendants, and is seeking unspecified compensatory and punitive damages.

On March 23, 2000, ARCO (as successor to IS&R) was named as a defendant in a purported class action suit filed in California Superior Court by the County of Santa Clara, County of Santa Clara v. ARCO, et al. (Case No. CV788657). Amended complaints added the Counties of Alameda, Solano, Santa Cruz, Kern, the City and County of San Francisco, the City of Oakland, the San Francisco Housing Authority, the San Francisco Unified School District, the Oakland Housing Authority, the Oakland Redevelopment Agency and the Oakland Unified School District as plaintiffs and seek certification of a class of all public entities in California who expend or have expended any funds for medical treatment, educational expenses, abatement, property damage or other costs and expenses due to exposure to or potential exposure to lead, with the exception of the

state of California and its agencies, offices, commissions, programs, bureaus, authorities, departments, committees and boards. The second amended complaint, which also names seven former lead pigment manufacturers or their alleged successors and the LIA, alleges causes of action for fraud and concealment, strict product liability, negligence, negligent breach of special duty, nuisance, and violation of the California Business and Professions Code and asserts a market share theory of liability and conspiracy allegations. Plaintiffs seek unspecified compensatory, general, special, incidental and punitive damages, disgorgement of profits from defendants' wrongful conduct, abatement, civil penalties, an order enjoining defendants' wrongful conduct, interest, costs and attorney's fees.

On June 20 and 30, 2000, ARCO (as successor to IS&R) was named as a defendant in lawsuits filed in the District Court of Harris County, Texas by the Spring Branch Independent School District, Spring Branch ISD v. Lead Industries Association, et al. (Case No. 2000-31175), and by the Houston Independent School District, Houston ISD v. Lead Industries Association, et al. (Case No. 2000-33725). The petitions, which also name seven former lead pigment or lead paint manufacturers or their alleged successors and the LIA, allege causes of action for strict liability, negligence, fraud and negligent misrepresentation, concert of action, conspiracy and indemnity. The petitions assert that defendants are liable for costs that have been incurred and will be incurred as lead paint is abated or remedied

14

<PAGE>

from the school districts' buildings and facilities. The petitions seek unspecified compensatory and punitive damages, costs, interest and attorney's fees.

On July 1, 2000, ARCO (as successor to IS&R) was named as a defendant in a purported class action suit filed in the Circuit Court of Cook County, Illinois by Mary Lewis and Tashswan Banks, Lewis v. Lead Industries Association, et al. (Case No. 00CH09800). The amended complaint, which also names five former lead pigment/lead paint manufacturers and the LIA, alleges causes of action for intentional failure to warn, supplier liability, fraud on the public and civil conspiracy. Plaintiffs seek certification of a class of parents or legal guardians of all minors residing in Illinois who have undergone since January 1, 1992, or will undergo in the future, medical screening or assessment for lead poisoning, and who have undergone, or will undergo, continued medical monitoring to detect the onset of latent disease associated with lead poisoning. The amended complaint seeks an order requiring defendants to reimburse plaintiffs and class members for unspecified costs of medical screenings, assessments and monitoring, a court-supervised medical evaluation and monitoring program funded by defendants, costs and attorney's fees.

In addition, ARCO (as successor to IS&R) is a defendant in several lawsuits brought on behalf of individual children allegedly injured from exposure to lead paint, Brenner v. American Cyanamid Co., et al. (Supreme Court, Erie County, New York), Thomas v. Lead Industries Association, et al. (Superior Court, Milwaukee County, Wisconsin) and Smith, et al. v. Lead Industries Association, et al. (Circuit Court of Baltimore City, Maryland). Summary judgment was entered for defendants in Brenner, and the case now is on appeal. Such cases, in the aggregate, are not material to the financial condition of the company.

On June 7, 1994, a purported class action was filed by several individuals in United States District Court in Pittsburgh, Pennsylvania against ARCO and Babcock & Wilcox Company (B & W) on behalf of persons "estimated to be in the thousands" who lived or worked in Apollo and Parks Township, Pennsylvania, and areas downwind of those places, from 1957 to the present. The suit, Hall, et al. v. Babcock & Wilcox Company, et al. (Case No. 94-0951), claims that the plaintiffs and alleged class members were exposed to releases of radioactive and other toxic substances from two nuclear materials processing facilities that have contaminated the air, soil, and surface and ground water in those

Page 20

communities. The suit seeks damages for death and personal injury, diminution in property values, costs of decontamination of property, injunctive relief requiring defendants to establish a fund for medical monitoring, and punitive damages. ARCO has been sued as the former owner of Nuclear Materials and Equipment Corporation (NUMEC), the original owner and operator of the Apollo and Parks Township facilities from March 1967 to November 1971. On September 17, 1998, the jury in a trial of eight "test-case" plaintiffs' claims returned a verdict of \$33.7 million jointly and severally against ARCO and B & W and another \$2.8 million just against B & W. On September 24, 1998, these eight test-case plaintiffs withdrew their claim for punitive damages against ARCO. On June 29, 1999, the court granted ARCO's and B & W's motions for a new trial. On November 15, 1999, as part of amending its responsive pleading in the Hall action, B & W filed a crossclaim against ARCO for contractual indemnity, common law indemnity, and contribution, seeking to be indemnified by ARCO for any liability arising out of the Hall action. ARCO has moved to strike the crossclaim, but the court has not yet ruled on ARCO's motion. The claims of the eight test-case plaintiffs and of other plaintiffs remain for trial or other disposition.

On February 22, 2000, B & W filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Louisiana. On April 4, 2000, B & W filed an adversary complaint in the Bankruptcy Court against the plaintiffs in the Hall v. B & W action, seeking to confirm that the automatic stay applicable to actions against the debtor operates to stay the Hall case in its entirety, including any claims against ARCO. On October 6, 2000, the Bankruptcy Court denied to confirm that the automatic stay applicable to stay the claims against ARCO in the Hall case. B & W and ARCO are appealing this ruling to the District Court. "On February 22, 2001, B&W filed a plan of reorganization that provides for treatment of the Hall plaintiffs' claims against all defendants, including ARCO, by means of a channeling trust. That plan has not been approved by the bankruptcy court."

15

<PAGE>

On April 13, 1995, a lawsuit was filed in United States District Court for the Central District of California titled ARCO, et al. v. UNOCAL (Case No. 95-2379-KMW-JRx). ARCO and five other refiners sought a declaration that UNOCAL's U.S. Patent No. 5,288,393 (the '393 patent) is invalid and unenforceable. The '393 patent purports to cover a substantial portion of the reformulated gasoline compositions that were required by the State of California when the Phase II regulations of the California Air Resources Board (CARB) went into effect in March 1996. In the same lawsuit, UNOCAL filed a claim for infringement of the '393 patent against ARCO and the five other refiners. On July 15, 1997, the first phase of trial commenced and on October 14, 1997, the jury found in UNOCAL's favor on the issues of whether ARCO and the other refiners had infringed the '393 patent and whether that patent is valid. The jury also found that ARCO had produced approximately 149 million gallons of infringing gasoline during the first five months of production. On November 3, 1997, the jury found that each refiner owed UNOCAL \$.0575 for each gallon of gasoline that infringed on UNOCAL's patent. On September 29, 1998, the court issued a judgment in favor of UNOCAL for \$10.3 million (including prejudgment interest) against ARCO for infringing gallons during the first five months of production and for \$1.5 million joint and several against ARCO and the other five refiners for UNOCAL's attorneys fees. On March 29, 2000, the Court of Appeals for the Federal Circuit affirmed the judgment. A petition for certiorari to the United States Supreme Court was denied on February 20, 2001. The case has been returned to the District Court for an accounting of the amount of infringement which has occurred since the 5 month period for which evidence was heard in the trial. Additionally, the defendants have advised the court (and the plaintiff as required by local rule) that they intend to request a new trial on the damage royalty rate subsequent to the 5 month period.

On June 7, 1996, the case of Aguilar, et al. v. Atlantic Richfield, et al. (Case No. 700810) was brought in the Superior Court of California for the County of San Diego against ARCO and eight other refiner-marketers of CARB reformulated gasoline. The plaintiffs allege that the defendants conspired to restrict the supply, and thereby to raise the price, of CARB gasoline in violation of California state antitrust and unfair competition law. The plaintiffs seek to recover treble damages, restitution, attorneys fees, and injunctive relief. The court has certified a class of California residents who bought CARB gasoline after March 1, 1996 other than for resale. On October 17, 1997, the court granted the defendants' motion for summary judgment. On January 23, 1998, the court granted the plaintiffs' motion for a new trial. On January 31, 2000, the Court of Appeal for the Fourth Appellate District reversed the order granting a new trial and ordered the Superior Court to grant summary judgment in favor of each defendant. On May 17, 2000, the California Supreme Court granted a petition for review of this decision. On January 23, 1998, the case of Gilley v. Atlantic Richfield, et al., [Case No. CV UU132BTM (RBB)] was filed in the United States District Court for the Southern District of California. The case, which is brought on behalf of a purported class of wholesale purchasers of CARB gasoline including lessee and contract gasoline dealers, claims violations of federal antitrust laws based upon factual allegations that are essentially the same as those contained in the Aguilar complaint. On October 22, 1998, ARCO was served with a complaint filed in the Superior Court of California for the County of Sacramento entitled Cal-Tex Citrus Juice, et al. v. Atlantic Richfield Company, et al. (Case No. 98AS05227). The complaint is purportedly on behalf of a class of all direct or indirect purchasers of California diesel fuel between March 19, 1996 and December 31, 1997 against all California refiners of California diesel fuel. The complaint alleges violations of various state statutes by the defendants' alleged conspiracy to fix prices of California diesel fuel and seeks treble damages and restitution. The Gilley and Cal-Tex matters have been stayed by their respective courts pending the outcome of the Supreme Court's review of Aguilar.

On June 26, 1998, a purported class action was filed in the Court of Chancery of the State of Delaware in New Castle County, McMullin v. Beran, et al. (Case No. 16493NC) against ARCO, Lyondell Petrochemical Company, ARCO Chemical Company, and the individual directors of ARCO Chemical relating to the acquisition of ARCO Chemical by Lyondell. The suit is brought by an individual shareholder of ARCO Chemical on behalf of all common stockholders, other than defendants, and seeks rescission of the transaction, damages for the allegedly inadequate

<PAGE>

consideration being paid by Lyondell for the shares, and attorneys' fees and costs. The plaintiff alleges that ARCO and the individual directors of ARCO Chemical, who are alleged to be dominated and controlled by ARCO, breached fiduciary duties to the minority shareholders. On December 1, 1999, the Court of Chancery issued an order dismissing the action on the grounds that the complaint did not state a valid claim under Delaware law. The plaintiff has appealed the order of dismissal and that court heard arguments on the appeal on July 25, 2000. On November 20, 2000, the Delaware Supreme Court reversed and remanded to the Chancery Court for further proceedings.

ARCO is defendant in an action pending in District Court in and for Potter County, Texas styled TUCO, Inc. v. Thunder Basin Coal Company and Atlantic Richfield Company (Case No. 79,483-C). Plaintiff, the corporate purchasing agent for a public utility, alleges that defendants consistently charged in excess of the proper contract price for coal used in the utility's power plants, and fraudulently induced plaintiff to enter into the contract to purchase the coal.

<PAGE>

Environmental Proceedings

As discussed under the caption "Environmental Matters," ARCO is currently participating in environmental assessments and cleanups at numerous operating and non-operating sites under Superfund and comparable state laws, RCRA, and other state and local laws and regulations, and pursuant to third party indemnification requests, and is the subject of material legal proceedings relating to certain of these sites. See "Environmental Matters--Material Environmental Litigation."

In addition to the matters reported herein, from time to time, certain of ARCO's operating divisions and subsidiaries receive notices from federal, state or local governmental entities of alleged violations of environmental laws and regulations pertaining to, among other things, the release, discharge, disposal, emission, storage and handling of chemical and petroleum substances, including hazardous wastes. Such alleged violations may become the subject of enforcement actions or other legal proceedings and may involve monetary sanctions of \$100,000 or more (exclusive of interest and costs).

In February 2001 ARCO entered into a consent decree in the lawsuit U.S. v. ARCO Pipeline Company (Case No. 99-2161-GTV), filed in the U.S. District Court, District of Kansas. Pursuant to the consent decree, settling a petroleum products spill from a pipeline in Oswatomie, Kansas that impacted a drinking water source, ARCO agreed to pay a civil penalty of \$804,700.

In response to a U.S. EPA program to enforce against alleged widespread air pollution violations at petroleum refineries, BP negotiated with the U.S. EPA and with several states a consent decree in respect of potential violations at all of the eight U.S. refineries operated by BP subsidiaries, including those operated by ARCO. ARCO and other BP subsidiaries entered into a consent decree resolving the matter, which was lodged January 18, 2001 with the federal district court for the Northern District of Indiana, Hammond Division, in the case of United States, et al v. BP Exploration & Oil, Inc., et al (Civil Action No. 2:96 CV 095 RL). That decree, if entered by the court, would require payment of penalties totalling \$10 million, and installation of controls and procedural improvements in all of the refineries, including those operated by ARCO.

Other Litigation

The company and its subsidiaries are defendants in numerous suits in which they are not covered by insurance which involve smaller amounts than the matters described above. Although the legal responsibility and financial impact in respect to such litigation cannot be ascertained, it is not anticipated that these suits will result in the payment by the company or its subsidiaries of monetary damages which in the aggregate would be material in relation to the net assets of the company and its subsidiaries.

18

<PAGE>

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2000.

19

<PAGE>

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

2001-03 AR Annual Rpt (10K) for 2000.txt

ARCO's common stock ceased to be publicly traded on April 18, 2000. The only publicly traded equity securities of ARCO after that date were the \$3.00 and \$2.80 Preference Stocks. Following the merger, each share of \$3.00 Preference Stock is convertible into 22.304 BP ADSS and each share of \$2.80 Preference Stock is convertible into 7.872 BP ADSS.

On March 28, 2001, ARCO called for the redemption of all outstanding shares of Preference Stocks on April 27, 2001. See discussion under caption "Redemption of ARCO Preference Stocks."

<TABLE>
<CAPTION>

| | 2000 | | | | 1999 | | |
|---|---------|---------|---------|--------|-------------|-------------|---------|
| | 4th | 3rd | 2nd | 1st | 4th | 3rd | 2nd |
| 1st | | | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| <C> | | | | | | | |
| \$3.00 Cumulative Convertible Preference Stock: | | | | | | | |
| Market price per share | | | | | | | |
| High..... | \$1,026 | \$1,260 | \$1,260 | \$999 | \$1,200 | \$1,200 | \$1,152 |
| \$857 | | | | | | | |
| Low..... | \$1,026 | \$1,220 | \$1,100 | \$999 | \$1,198 3/4 | \$1,199 1/4 | \$1,095 |
| \$734 | | | | | | | |
| Cash dividends per | | | | | | | |
| share..... | \$0.75 | \$0.75 | \$0.75 | \$0.75 | \$0.75 | \$0.75 | \$0.75 |
| \$0.75 | | | | | | | |
| \$2.80 Cumulative Convertible Preference Stock: | | | | | | | |
| Market price per share | | | | | | | |
| High..... | \$438 | \$450 | \$450 | \$415 | \$460 | \$450 | \$413 |
| \$351 1/2 | | | | | | | |
| Low..... | \$360 | \$403 | \$390 | \$304 | \$407 | \$399 1/2 | \$350 |
| \$259 | | | | | | | |
| Cash dividends per | | | | | | | |
| share..... | \$0.70 | \$0.70 | \$0.70 | \$0.70 | \$0.70 | \$0.70 | \$0.70 |
| \$0.70 | | | | | | | |
| </TABLE> | | | | | | | |

20

<PAGE>

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial information for ARCO:

<TABLE>
<CAPTION>

| | Years Ended December 31 | | | | |
|---------------------------|-------------------------------------|---------|---------|---------|------|
| | 2000(1)(3) | 1999(2) | 1998(4) | 1997(3) | 1996 |
| | (Millions except per share amounts) | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Sales and other operating | | | | | |

Page 24

2001-03 AR Annual Rpt (10K) for 2000.txt

| | | | | | |
|--|----------|----------|----------|----------|----------|
| revenues (including sales to related parties)..... | \$17,500 | \$12,501 | \$10,303 | \$14,340 | \$14,094 |
| Income (loss) from continuing operations before extraordinary item..... | 3,089 | 1,345 | (655) | 1,331 | 1,261 |
| Earnings (loss) per share from continuing operations before extraordinary item (basic)(5)(6)..... | -- | 4.17 | (2.05) | 4.14 | 3.92 |
| Earnings (loss) per share from continuing operations before extraordinary item (diluted)(5)(6)(7)..... | -- | 4.09 | (2.05) | 4.07 | 3.86 |
| Net income..... | 3,026 | 1,422 | 452 | 1,771 | 1,663 |
| Cash dividends per common share(6)(8)..... | 2.1375 | 2.85 | 2.85 | 2.825 | 2.75 |
| Total assets..... | 24,950 | 26,272 | 25,199 | 22,425 | 22,703 |
| Long-term debt and capital lease obligations..... | 4,090 | 5,698 | 4,332 | 3,619 | 4,745 |

</TABLE>

- (1) See Notes 4,5,11 and 14 of Notes to Consolidated Financial Statements regarding sale of Alaskan operations and certain Lower 48 pipeline assets, restructuring costs and impairment of oil and gas properties.
- (2) Includes \$161 million after-tax loss on disposition of Algeria assets.
- (3) Includes extraordinary loss on extinguishment of debt of \$152 million after tax in 2000 and \$118 million after tax in 1997.
- (4) Includes \$925 million after-tax impairment of oil and gas properties.
- (5) Earnings per share has been omitted for 2000 because ARCO had no publicly held common stock after ARCO's acquisition by BP on April 18, 2000.
- (6) Restated for the effect of 100% stock dividend issued June 13, 1997.
- (7) No dilution assumed for 1998 due to antidilutive effect on loss from continuing operations.
- (8) The Company declared and paid its fourth quarter 2000 dividend of \$.7125 to common stock shareholders in January 2001.

21

<PAGE>

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

On April 18, 2000 ARCO was acquired by BP and became a part of the BP Group, a worldwide integrated oil and gas and chemical business. BP, indirectly, now owns all the common stock of ARCO. As part of the BP Group, the ARCO businesses have been structured into business units, some of which were combined with other businesses from the BP Group. The operations within the BP Group are managed through four main businesses, Exploration and Production, Gas and Power, Refining and Marketing and Chemicals. Gas and Power and Chemicals businesses are not material to ARCO. The financial position and results of operations of heritage ARCO entities should be understood in the context of this relationship. See Note 1 of Notes to Consolidated Financial Statements for a further discussion of the acquisition. The financial statements of ARCO reflect the historical costs to the previous shareholder group and, accordingly, do not reflect any purchase accounting adjustments related to the acquisition of ARCO by BP.

The Operating Review that follows explains the major changes in ARCO's key businesses as related to prices, production volumes, sales, and expenses for

Page 25

2001-03 AR Annual Rpt (10K) for 2000.txt
the years 2000 and 1999. The consolidated results of these operations are
examined in relation to the Consolidated Statement of Income on page 38.

Results of Segment Operations

Exploration & Production

| <TABLE> <CAPTION> Millions | | | |
|----------------------------------|----------|----------|----------|
| | 2000 | 1999 | 1998 |
| ----- | | | |
| <S> | <C> | <C> | <C> |
| Net income (loss) | \$ 1,591 | \$ 938 | \$ (616) |
| Special items charge | 240 | 190 | 1,002 |
| ----- | | | |
| Operating results | \$ 1,831 | \$ 1,128 | \$ 386 |
| ===== | | | |

The increase in ARCO's 2000 operating results from worldwide oil and gas exploration and production operations primarily resulted from higher crude oil and natural gas prices and lower exploration expenses, partially offset by the absence of income from Alaskan oil producing properties following their sale in the second quarter of 2000. Exploration expense associated with international operations declined \$97 million before tax primarily as a result of lower writeoffs for dry holes.

The 2000 special items included charges of \$512 million after tax primarily for the impairment of oil and gas properties in Latin America and additional severance and vacant space reserves, partially offset by a gain of \$131 million after tax on the sale of Vastar's interest in a joint venture and a net gain on other asset sales.

Average Petroleum Liquids Sales Prices

| <TABLE> <CAPTION> per barrel | | | |
|------------------------------------|----------|----------|----------|
| | 2000 | 1999 | 1998 |
| ----- | | | |
| <S> | <C> | <C> | <C> |
| U.S., including Vastar | \$ 23.31 | \$ 12.83 | \$ 9.43 |
| International composite | \$ 22.00 | \$ 14.39 | \$ 11.07 |
| Venezuela | \$ 13.19 | \$ 7.42 | \$ 4.05 |

Average Natural Gas Sales Prices

| <TABLE> <CAPTION> per thousand cubic feet | | | |
|---|---------|---------|---------|
| | 2000 | 1999 | 1998 |
| ----- | | | |
| <S> | <C> | <C> | <C> |
| U.S. | \$ 3.45 | \$ 1.99 | \$ 1.82 |
| International (excluding LNG) | \$ 2.34 | \$ 2.24 | \$ 2.54 |
| Indonesian LNG | \$ 5.36 | \$ 3.29 | \$ 2.49 |

In 1999, ARCO's operating results from worldwide oil and gas exploration and production operations were significantly impacted by higher crude oil prices and, to a lesser extent, higher natural gas volumes and domestic natural gas prices.

<PAGE>

Results of Segment Operations

In addition, as a result of the company's cost reduction program, combined operating, exploration, and selling, general and administrative (SG&A) expenses before tax were more than \$500 million lower, compared to 1998.

In 1999, special items included a net charge of \$190 million after tax, primarily for the loss on the disposition of a portion of ARCO's interest in the Rhourde El Baguel field in Algeria and for the anticipated loss on the sale of office space in Plano, Texas. Charges for impairment in 1999 were insignificant.

In 1998, special items included after-tax charges of \$925 million for the impairment of oil and gas properties, including \$507 million related to former UTP properties. Special items also included after-tax charges of \$107 million primarily for employee termination costs associated with restructuring. These charges were partially offset by tax-related benefits of approximately \$30 million.

Petroleum Liquids Production

<TABLE>

<CAPTION>

Barrels/day -
net

| | 2000 | 1999 | 1998 |
|----------------|---------|---------|---------|
| ----- | | | |
| <S> | <C> | <C> | <C> |
| Alaska | 101,800 | 319,100 | 346,700 |
| Vastar | 72,000 | 60,000 | 50,100 |
| Other Lower 48 | 59,100 | 85,200 | 130,800 |
| International | 121,100 | 159,100 | 130,400 |
| ----- | | | |
| Total | 354,000 | 623,400 | 658,000 |
| ===== | | | |

</TABLE>

The significant decline in 2000 U.S. petroleum liquids production resulted from the sale of Alaskan producing properties in the second quarter of 2000. The increase in Vastar's petroleum liquids production in 2000 resulted from the startup of production from the Mississippi Canyon 764 block in the Gulf of Mexico deepwater in the second quarter of 2000. The decline in other Lower 48 petroleum liquids production primarily reflected the sale of ARCO Long Beach, Inc. in the second quarter of 2000. ARCO Long Beach, Inc. produced approximately 30,200 barrels per day (BPD) in 1999.

The decline in international petroleum liquids production primarily reflected lower United Kingdom and Indonesian volumes. The decrease in United Kingdom volumes of nearly 20,000 BPD primarily resulted from the sale of oil fields in the second quarter of 2000. The decrease in Indonesian volumes of approximately 9,000 BPD resulted from the impact of higher crude oil prices on production sharing contracts.

The 1999 decrease in U.S. petroleum liquids production primarily resulted from natural field declines in Alaska and the absence of production from California heavy crude oil properties (other Lower 48) that produced approximately 32,000 BPD in 1998. The California properties were exchanged in October 1998 for Gulf of Mexico exploration acreage and properties producing both crude oil and natural gas that were ultimately transferred to Vastar. The lower Alaska petroleum liquids production primarily reflected natural field decline at the Prudhoe Bay, Kuparuk River and Greater Point McIntyre fields partially offset by increases in satellite field production.

The 1999 increase in international petroleum liquids production primarily

2001-03 AR Annual Rpt (10K) for 2000.txt
reflected the impact of a full year of production contributed by former UTP
properties in 1999 versus only six months of production in 1998.

Natural Gas Production

| <TABLE> <CAPTION> Million cubic feet/day - net | | | |
|---|-------|-------|-------|
| | 2000 | 1999 | 1998 |
| ----- | | | |
| <S> | <C> | <C> | <C> |
| U.S., including Vastar | 1,247 | 1,259 | 1,175 |
| International | | | |
| United Kingdom | 427 | 451 | 369 |
| Indonesia | 237 | 247 | 293 |
| Indonesia LNG | 222 | 251 | 98 |
| China | 106 | 114 | 133 |
| Other | 52 | 56 | 36 |
| ----- | | | |
| Total International | 1,044 | 1,119 | 929 |
| ===== | | | |

</TABLE>

23

<PAGE>

Results of Segment Operations

All geographic areas experienced lower natural gas production in 2000, primarily due to property sales and natural field declines.

In 1999, the growth in international natural gas production reflected increased production from the United Kingdom North Sea, primarily a full year of production from UTP properties acquired in June 1998. The growth was partially offset by a decrease in Indonesian natural gas production as a result of the impact of higher natural gas prices on production sharing contracts. The increase in U.S. natural gas production primarily resulted from Vastar's 9% growth in production. Vastar's increased production reflected the production from the Gulf of Mexico properties transferred to Vastar late in 1998, and production increases achieved from new field startups and operational improvements at West Cameron 645, Mississippi Canyon 148, the San Juan Basin and other fields.

Refining & Marketing

| <TABLE> <CAPTION> Millions | | | |
|----------------------------------|--------|--------|--------|
| | 2000 | 1999 | 1998 |
| ----- | | | |
| <S> | <C> | <C> | <C> |
| Net income | \$ 277 | \$ 593 | \$ 281 |
| Special items charge | 151 | 3 | - |
| ----- | | | |
| Operating results | \$ 428 | \$ 596 | \$ 281 |
| ===== | | | |

</TABLE>

The decline in 2000 earnings primarily resulted from lower margins. Higher product prices were more than offset by higher crude oil costs, higher purchased finished product prices and volumes, and higher utility and fuel costs. Margins on the sale of purchased products are lower than on products produced. As in prior years, an increase in gasoline sales volume in 2000

required the company to buy refined product on the spot market, as the company's two refineries were operating near capacity during the year.

Improved operating results in 1999, compared to 1998, primarily resulted from higher light product margins. The effect of west Coast refinery outages in the second quarter of 1999 impacted supply in the second and third quarters resulting in higher product realizations. The higher product sales prices were partially offset by higher crude oil costs.

The amortization and recognition of imputed interest associated with the deferral of part of the pretax gain on the sale of the ARCO Chemical interest in 1998 had a net favorable impact of approximately \$42 million, \$44 million and \$17 million after tax on refining and marketing earnings in 2000, 1999 and 1998, respectively. See "Gain on Disposition of Discontinued Operations" on page 26.

Special items in 2000 primarily included charges for future environmental remediation, additional severance and legal reserves.

In 1998, a special items charge of \$13 million for personnel reductions associated with ARCO's cost reduction programs was offset by favorable legal settlements.

Petroleum Products Sales

<TABLE>

<CAPTION>

| Thousand barrels/day | 2000 | 1999 | 1998 |
|----------------------|-------|-------|-------|
| <S> | <C> | <C> | <C> |
| Gasoline | 349.2 | 314.5 | 308.7 |
| Jet | 100.0 | 102.3 | 102.8 |
| Distillate | 86.4 | 82.9 | 80.6 |
| Other | 73.5 | 71.0 | 72.7 |
| Total | 609.1 | 570.7 | 564.8 |

</TABLE>

In order to support the growth in petroleum product sales volumes in 2000, refined products were purchased from third parties to supplement ARCO's refinery production.

<PAGE>

Results of Segment Operations

Other Operations

<TABLE>

<CAPTION>

| Millions | 2000 | 1999 | 1998 |
|--------------------------------|-------|-------|--------|
| <S> | <C> | <C> | <C> |
| Net income | \$ 39 | \$ 87 | \$ 111 |
| Special items (benefit) charge | 15 | (6) | (8) |
| Operating results | \$ 54 | \$ 81 | \$ 103 |

</TABLE>

Results from ARCO's other operations comprise earnings from Lower 48 pipeline operations and an aluminum rolling facility. The decline in operating results in 2000 primarily resulted from the absence of income from certain pipeline assets sold to comply with the FTC-mandated sale of assets required for approval of the acquisition of ARCO by BP, as well as lower margins for

aluminum operations.

Excluding the special items, the decline in operating results in 1999 reflected decreased earnings from the pipeline operations, primarily as a result of the transfer of certain pipeline operations to the refining and marketing segment. This decline was partially offset by a \$3 million increase in equity earnings from the 50% owned Seaway pipeline joint venture in the Midcontinent.

Operating results from the aluminum operations were relatively flat for the two years ended December 31, 1999.

The 2000 and 1999 special items primarily consisted of charges for severance reserves in 2000 and gains from asset sales in 1999. The 1998 special items included gains from pipeline asset sales, partially offset by pipeline restructuring charges.

Unallocated Items

<TABLE>

<CAPTION>

Millions

| | 2000 | 1999 | 1998 |
|--|----------|----------|----------|
| <hr/> | | | |
| <S> | <C> | <C> | <C> |
| Unallocated net income (expense) | \$ (266) | \$ 12 | \$ (228) |
| Interest expense | (363) | (285) | (203) |
| Income from discontinued operations | - | - | 179 |
| Gain on disposition of discontinued operations | 89 | 77 | 928 |
| Extraordinary loss on extinguishment of debt | (152) | - | - |
| | <hr/> | | |
| Total | \$ (692) | \$ (196) | \$ 676 |
| | <hr/> | | |

</TABLE>

Unallocated expenses in 2000 included after-tax charges incurred in connection with the BP acquisition of ARCO, future environmental remediation and restructuring costs of \$97 million, \$237 million and \$134 million, respectively. The increase in these amounts, compared to 1999, was partially offset by interest earned on the receivable from BP and further reductions in corporate staff and general expenses.

After-tax charges for future environmental remediation and restructuring costs were \$24 million and \$8 million in 1999, compared to \$143 million and \$48 million, respectively, in 1998. These decreases, along with a reduction in corporate staff and general expenses of approximately \$90 million after tax, was only partially offset by lower tax benefits and decreased interest income on short-term investments, resulting in unallocated net income in 1999.

In 1998, unallocated net expense primarily included charges of \$143 million after tax for future environmental remediation, charges of \$48 million after tax for restructurings, corporate staff and general expenses, and interest revenue.

The environmental charges in 1998 related both to current operations and natural resource damage liabilities in the state of Montana associated with previously discontinued mining operations.

The increase in interest expense in 2000 primarily reflected lower capitalized interest and interest paid to BP for funds advanced to certain subsidiaries of ARCO following the acquisition of ARCO by BP. Gross after-tax interest expense declined in 1999 after taking into account the effect on 1998 interest expense of a \$94 million after-tax interest credit associated with a tax refund received in 1998. The decrease in 1999 was due primarily to higher capitalized interest. The impact of increased interest capitalization more than offset the increase in combined short- and long-term debt outstanding during 1999.

2001-03 AR Annual Rpt (10K) for 2000.txt
Results of Segment Operations

Extraordinary Loss on Extinguishment of Debt

The company incurred a loss of \$243 million before tax, or \$152 million after tax, on early retirement of long-term debt during 2000. The early retirements will result in a pre-tax reduction in interest expense on long-term debt of approximately \$75 million in 2001.

Gain on Disposition of Discontinued Operations

ARCO Chemical

In July 1998, ARCO sold its entire interest in ARCO Chemical to Lyondell Chemical Company (Lyondell) for cash proceeds of \$4.6 billion. After deferral of \$313 million of the pre-tax gain as discussed below, ARCO recorded a net after-tax gain of \$1.053 billion. In 1999, adjustments for tax benefits resulted in the recording of an additional after-tax gain on disposition of \$59 million.

In 1992 the company entered into a 10-year purchase agreement with ARCO Chemical providing for the delivery of fixed quantities of methyl tertiary butyl ether (MTBE) at a formula-based price. At the inception of the contract, a liquid spot market for MTBE did not exist. As the spot market has developed, the formula-based prices have historically been above spot market prices. Provision for loss on the contract was not necessary prior to the sale to Lyondell because ARCO Chemical was a consolidated, majority-owned subsidiary of the company. ARCO believes that, at the date of sale of ARCO Chemical to Lyondell, the pricing terms were above-market as compared to similar toll-based contracts.

The above-market MTBE contract value was reflected in the sale price of the company's interest in ARCO Chemical. As a result, ARCO deferred \$313 million of the pre-tax gain on sale of the ARCO Chemical interest. This deferral represents the estimated discounted present value of the difference over the remaining term of the contract (which terminates in 2002) between the contract price and the spot market price for MTBE. ARCO does not expect that the above-market differential will decrease over the remaining term.

The deferral is being amortized over the remaining term of the contract on the basis of annual volume over total contracted volume. The amortization and recognition of imputed interest had a net favorable impact of approximately \$42 million, \$44 million and \$17 million after tax on earnings of the refining and marketing segment in 2000, 1999 and 1998, respectively.

Coal

In the second quarter of 2000, ARCO disposed of its remaining coal assets in Australia. Upon the sale of those assets, a provision originally established in 1998 for the estimated loss on sale of U.S. and Australian coal assets was reduced, resulting in an after-tax gain of \$89 million.

In 1998, ARCO recorded a \$92 million provision for the estimated loss on the disposal of the U.S. and Australian coal assets. In 1999, upon the sale of ARCO's 80% interest in the Gordonstone coal mine and its 31.4% interest in the Blair Athol Joint Venture the provision was reduced resulting in an after-tax gain of \$22 million.

In June 1998, for cash consideration of approximately \$1.1 billion, ARCO disposed of its U.S. coal operations in a transaction with Arch Coal (Arch). Operations disposed of included the Black Thunder and Coal Creek mines in Wyoming, the West Elk mine in Colorado, and ARCO's 65% interest in three mines in Utah. The Colorado and Utah mines were sold outright. ARCO contributed its Wyoming coal operations and Arch transferred various of its coal operations into a new joint venture that is 99% owned by Arch and 1% owned by ARCO.

UTP Petrochemical

At the time of the UTP acquisition, ARCO determined the UTP petrochemical operations would be divested. In March 1999, ARCO sold the UTP petrochemical business and recorded a small loss.

See Note 9 of Notes to Consolidated Financial Statements regarding discontinued operations.

27

<PAGE>

Results of Consolidated Operations

Income from Continuing Operations

In 2000, the increased operating results were the result of higher crude oil and natural gas prices and lower exploration expenses, partially offset by lower refined products margins.

The improvement in ARCO's income from continuing operations in 1999 primarily reflected higher crude oil prices, increased refined products margins, lower operating, exploration and SG&A expenses and higher natural gas volumes.

Earnings from Consolidated Operations

<TABLE>

<CAPTION>

| Millions | 2000 | 1999 | 1998 |
|--|----------|----------|----------|
| <S> | <C> | <C> | <C> |
| Income (loss) from continuing operations | \$ 3,089 | \$ 1,345 | \$ (655) |
| Special items charge (benefit) | \$ (977) | 181 | 1,055 |
| operating results | \$ 2,112 | \$ 1,526 | \$ 400 |

Special items after tax

<CAPTION>

| Millions | 2000 | 1999 | 1998 |
|---------------------------------------|------------|--------|----------|
| <S> | <C> | <C> | <C> |
| Gain on FTC mandated asset sales | \$ (1,811) | \$ - | \$ - |
| Net gain on other asset sales | (256) | (9) | (24) |
| Loss on disposition of Algeria assets | - | 161 | - |
| Impairment of oil and gas properties | 240 | 9 | 925 |
| Restructuring charges | 407 | 13 | 172 |
| Environmental charges | 300 | 27 | 145 |
| BP merger costs | 97 | - | - |
| Tax-related (benefits) charges | 12 | (33) | (153) |
| Other, net | 34 | 13 | (10) |
| Total charge (benefit) | \$ (977) | \$ 181 | \$ 1,055 |

</TABLE>

Revenues

The increase in exploration and production sales revenues resulted primarily from higher crude oil and natural gas prices being offset to a large extent by significantly lower petroleum liquids production, which resulted from the sale of the company's Alaskan oil and gas operations, and the cessation of the

domestic crude oil marketing activity following ARCO's acquisition by BP. Refining and marketing sales revenues increased primarily because of higher light product prices, which reflected the increased crude oil prices and, to a lesser extent, higher gasoline sales volumes compared to the prior year.

In 1999, the increase in exploration and production sales revenues resulted from higher petroleum liquids prices and natural gas production volumes, partially offset by lower petroleum liquids volumes.

Sales and Other Operating Revenues

<TABLE>

<CAPTION>

| Millions | 2000 | 1999 | 1998 |
|---------------------------|-----------|-----------|-----------|
| <S> | <C> | <C> | <C> |
| Exploration & production | \$ 7,612 | \$ 7,022 | \$ 5,936 |
| Refining & marketing | 10,231 | 7,000 | 5,484 |
| Other operations | 515 | 56 | 170 |
| Intersegment eliminations | (858) | (1,577) | (1,287) |
| Total | \$ 17,500 | \$ 12,501 | \$ 10,303 |

</TABLE>

In 1999, refining and marketing revenue primarily increased as a result of higher refined products prices.

28

<PAGE>

Results of Consolidated Operations

Other Revenues

Other revenues increased in 2000 reflecting a \$202 million pre-tax gain from sale of Vastar's interest in SCEM and a \$77 million pre-tax gain from the sale of stock to the public by an insurance company in which ARCO was a mutual participant.

In 1999, higher other revenues, compared to 1998, reflected one-time legal settlements and increased interest and rental income.

Related party interest in 2000 relates to an intercompany receivable from BP that has been outstanding since the sale of Alaskan operations in the second quarter 2000.

Expenses

The increased trade purchases and trade purchases from related parties in 2000 reflected the purchases of Alaskan crude oil by the refining and marketing operations following the sale of ARCO's Alaskan oil and gas operations to Phillips Petroleum. Prior to the sale of the Alaskan operations those purchases were eliminated as intercompany transactions in the consolidated financial statements. In addition, trade purchases reflected the effect of increased crude oil prices and higher gasoline purchases by the company's refining and marketing operations.

In 1999 trade purchases were higher primarily as a result of increased purchases of finished and unfinished refined product from third parties and higher crude oil prices associated with crude oil marketing activity.

Operating expenses were higher in 2000 primarily as a result of \$521 million in before-tax charges for future environmental remediation, compared to \$57 million in 1999.

In 1999 operating expenses declined as a result of a decrease in exploration and production operating costs of approximately \$190 million before tax,

compared to 1998. This decline was due to the 1998 exchange of higher cost California heavy crude oil properties for Gulf of Mexico crude oil and natural gas properties, as well as the impact of the company's cost reduction program. In addition, charges for future remediation and reclamation were \$57 million in 1999, compared to \$234 million in 1998. The 1998 charges related to both current operations and to natural resource damage liabilities in the state of Montana associated with previously discontinued mining operations.

SG&A expenses in 2000 primarily reflected lower expenses associated with international exploration and production operations and lower corporate administrative expenses.

In 1999, SG&A expense declined primarily as a result of lower personnel costs and a favorable adjustment to self-insurance reserves for estimated claims incurred but not yet reported.

DD&A expense in 2000 declined primarily as a result of the sale of the Alaskan oil and gas producing operations in April 2000 and also the sale of oil and gas properties associated with the Company's international exploration and production operations.

In 1999 DD&A expense, compared to 1998, was higher as a result of a full year of DD&A associated with the former UTP operations, which became a part of ARCO's operations in the third quarter of 1998. In addition, DD&A expense also increased as a result of increased natural gas production and higher average depletive writeoff rates associated with Vastar's operations.

In each of the last 3 years ARCO has performed an impairment review of certain oil and gas properties. The review in 2000 resulted in an impairment charge of \$286 million before tax primarily related to several Latin American oil fields along with smaller impairments of properties in the United States and Europe. The 1999 impairment review resulted in insignificant charges related to a few isolated properties.

The review in 1998 resulted in an impairment charge of \$1,447 million. The impaired properties included former UTP properties in Pakistan, Latin America and the U.K. North Sea, as well as other ARCO properties in California, the U.K. North Sea, North Africa and the Middle East.

<PAGE>

Results of Consolidated Operations

The decline in 2000 exploration expense reflected lower writeoffs for dry holes and lower other exploration expenses associated with ARCO's international oil and gas operations, partially offset by the writeoff of two domestic deepwater offshore wells in the first quarter of 2000.

In 1999 lower exploration expense reflected a decline in geological and geophysical and dry-hole expense in ARCO's international oil and gas operations and a decline in Vastar's dry-hole expense.

Taxes other than income taxes in 2000 did not reflect the increase in crude oil prices, as the crude oil price increase was offset by lower production volumes resulting primarily from the sale of the company's Alaskan oil and gas producing operations.

In 1999, taxes other than income taxes declined as lower production volumes on which certain production taxes are based more than offset the increase in crude oil prices.

The higher interest expense (other than that paid to related parties) in 2000 primarily resulted from lower capitalized interest as a result of the sale of ARCO's interest in an oil field in Algeria in the second quarter of 2000 and the completion of projects in the U.K. and Latin America that were ongoing in 1999.

Related party interest expense is associated with the net amount of funds advanced by BP primarily for ARCO's United Kingdom oil and gas producing operations.

In 1999 interest expense was slightly lower, compared to 1998, after taking into account the effect on 1998 interest expense of an interest credit associated with a tax refund received in 1998. The decline resulted from the

impact of increased interest capitalization more than offsetting the increase in combined short and long-term debt outstanding during 1999.

The restructuring costs in 2000 represented charges for the costs associated with the acquisition of ARCO by BP, primarily employee terminations. The \$20 million of restructuring charges in 1999 relates to an adjustment of a 1998 accrual for employee terminations, primarily due to the elimination of additional positions. In 1998, \$229 million of the restructuring charges related to costs of eliminating approximately 1,200 positions specifically identified as of December 31, 1998. See Note 11 of Notes to Consolidated Financial Statements on page 51 regarding restructuring costs.

Income Taxes

The company had an effective tax rate of 34.0% and 27.8% in 2000 and 1999, respectively. An effective tax rate lower than the statutory rate in both 2000 and 1999 primarily reflected various tax credits and other benefits, partially offset by taxes on foreign income in excess of statutory rate.

30

<PAGE>

Analysis of Cash Flows and Financial Condition

2000 Cash Inflows - (millions)

[CHART APPEARS HERE]

<TABLE>

<S>

\$6,803

\$2,311

\$1,494

\$ 94

\$ 81

<C>

Sale of Alaskan oil and gas businesses and pipelines

Operations

Other asset sales

Long-term debt issuance

Other

</TABLE>

Capital expenditures for additions to fixed assets totaled \$2.1 billion in 2000. Future capital expenditures remain subject to business conditions affecting the industry, as well as changes in environmental rules and regulations and the tax laws.

Following the acquisition of ARCO by BP on April 18, 2000, ARCO became part of the BP Group, a worldwide integrated oil and gas and chemical business. As part of the BP Group, ARCO participates in BP's cash management system, where the bank sends daily notification of checks presented for payment. BP transfers funds from other sources to cover the checks presented for payment. This program generally results in book overdrafts as a result of checks outstanding. At December 31, 2000, these book overdrafts have been reclassified to accounts payable.

As a participant in BP's cash management system, ARCO must look to BP for the funding of its future cash requirements for working capital, capital expenditures and debt repayments.

Cash and cash equivalents and short-term investments totaled \$294 million at year-end 2000. ARCO had no short-term borrowings at December 31, 2000 and long-term debt due within one year was \$304 million.

The company was in a working capital deficit position of \$893 million at December 31, 2000.

2000 Cash Outflows - (millions)

[CHART APPEARS HERE]

<TABLE>

<S>

<C>

| | |
|---------|---|
| | 2001-03 AR Annual Rpt (10K) for 2000.txt |
| \$2,078 | Additions to fixed assets |
| \$1,618 | Acquisition of Vastar's minority interest |
| \$1,416 | Repayment of long-term debt |
| \$ 697 | Dividends |
| \$1,674 | Repayment of short-term debt |
| \$3,597 | Receivable from BP |
| \$ 307 | Investments and long-term receivables |
| \$ 253 | Other |

</TABLE>

Following the acquisition of ARCO by BP, ARCO's \$3.0 billion unused committed bank credit facility was terminated.

During 2000, Vastar's \$1.1 billion revolving credit facility was terminated.

The Company declared and paid its fourth quarter 2000 dividend to common shareholders in January 2001.

31

<PAGE>

Market-Sensitive Instruments and Risk Management

The following discussion of the company's risk-management activities includes "forward-looking statements" that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

Prior to its acquisition by BP, ARCO managed the effects of foreign currency and interest rate fluctuations through the use of foreign currency forward, option and swap contracts, interest rate swaps and financial futures contracts.

Following the acquisition, ARCO stopped engaging in hedging activity and by December 31, 2000, all hedging contracts in place prior to the acquisition had expired, except for some immaterial commodity hedging principally associated with the aluminum operations.

At December 31, 2000, the company held a variety of financial instruments and a small number of derivative instruments that are sensitive to changes in interest rates and commodity prices.

In the normal course of business, the company also faces risks that are either nonfinancial or nonquantifiable. Such risks principally include country risk, credit risk and legal risk and are not discussed or quantified in the following analyses.

Interest Rate Risk

The fair value of the company's cash and short-term investment portfolio December 31, 2000, approximated carrying value. Given the short-term nature of these instruments, market risk, as measured by the change in fair value resulting from a hypothetical 1% change in interest rates, is not material.

The fair value of the company's long-term debt, including current maturities, was estimated to be \$4.7 billion at December 31, 2000, and exceeded the carrying value by \$260 million. Market risk was estimated at \$260 million, representing potential increase in fair value resulting from a hypothetical 1% decrease in the company's weighted average long-term borrowing rate at December 31, 2000. Interest rate risk is mitigated by the use of floating rate instruments, which comprise approximately \$200 million of the company's long-term debt.

Foreign Exchange Rate Risk

At December 31, 2000, ARCO had no significant financial instruments denominated in a foreign currency or foreign currency derivatives outstanding.

Commodity Price Risk

Prior to the acquisition of ARCO by BP, the company used various hedging arrangements, predominantly natural gas swaps and crude oil futures and options, to manage the company's exposure to price risk from its natural gas and petroleum liquids production. These hedging arrangements had the effect of locking in for specified periods (at predetermined prices or ranges of prices) the prices the company will receive for the volumes to which the hedge relates. As a result, while these hedging arrangements are structured to reduce the company's exposure to decreases in price associated with the hedging commodity, they also limit the benefit the company might otherwise have received from any price increases associated with the hedged commodity.

Following the acquisition, ARCO stopped engaging in the hedging of its natural gas and petroleum liquids production.

Equity Price Risk

Other investments at December 31, 2000, included marketable equity securities which are recorded at fair value of \$712 million, including net unrealized gains of \$219 million. Those securities have exposure to price risk. The estimated potential loss in fair value resulting from a hypothetical 10% decrease in prices quoted by stock exchanges is \$71 million.

32

<PAGE>

Market-Sensitive Instruments and Risk Management

Environmental Matters

ARCO is subject to federal, state and local environmental laws and regulations that require the company to remove or mitigate the effect on the environment of the disposal or release of certain chemical, mineral and petroleum substances at various sites. ARCO is currently participating in environmental assessments and cleanups at numerous sites under these laws and may in the future be involved in additional environmental assessments and cleanups.

During 2000, management of the Company assessed the estimated future costs to remediate all of the Company's environmental sites and concluded that its best estimate of the cost to remediate such sites was greater than previously recorded. As a result the environmental reserve was increased by \$521 million during 2000, of which \$274 million was recognized during the fourth quarter.

Environmental Reserves*

<TABLE>
<CAPTION>

| Millions | 2000 | 1999 | 1998 |
|-----------------------|------------|------------|------------|
| <hr/> | | | |
| <S> Beginning balance | <C> \$ 686 | <C> \$ 870 | <C> \$ 722 |
| Charges | 521 | 57 | 234 |
| Payments | (109) | (241) | (86) |
| Ending balance | \$ 1,098 | \$ 686 | \$ 870 |

</TABLE>

* Total long-term and short-term liabilities

The amount accrued represents the estimated undiscounted costs that ARCO will incur to complete the remediation of sites with known contamination. In view of the uncertainties associated with estimating these costs, such as

Page 37

uncertainty regarding the appropriate method for remediation of various sites and regarding ARCO's ultimate share of costs, it is possible that actual costs could be significant. Although these costs might be material to the results of operations in the period in which they are recognized, ARCO does not expect that such costs will have a material effect on ARCO's financial position or equity. See Note 19 of Notes to Consolidated Financial Statements regarding environmental matters.

The increased payments against the environmental reserves in 1999 reflected a payment of \$160 million in settlement of a majority of the State of Montana's claims in a lawsuit resulting from mining and mineral processing businesses formerly operated by Anaconda.

In addition to the provision for environmental remediation costs, \$312 million has been accrued for the estimated cost, net of salvage value, of dismantling facilities as required by contract, regulation or law, and for the estimated costs of restoration and reclamation of land associated with such facilities.

Statements of Financial Accounting Standards Not Yet Adopted

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires companies to adopt its provisions for all fiscal quarters of all fiscal years beginning after June 15, 2000 (as deferred by SFAS No. 137). Earlier application of all of the provisions of SFAS No. 133 is permitted, but the provisions cannot be applied retroactively to financial statements of prior periods. SFAS No. 133 standardizes the accounting for derivative instruments by requiring that an entity recognize those items as assets or liabilities in the statement of financial position and measure them at fair value.

Following the acquisition of ARCO by BP, ARCO no longer engages in significant hedging activity using derivative instruments. Accordingly, the impact of SFAS No. 133 will not be material to stand-alone ARCO financial statements.

<PAGE>

Safe Harbor for Forward-Looking Statements

ARCO desires to take advantage of the "safe harbor" provisions for forward-looking statements contained in Section 27A of the Securities Act and Section 21B of the Exchange Act and is including this statement in order to do so. Such statements are generally accompanied by words such as estimate, project, predict or expect, that convey the uncertainty of future events or outcomes. These statements may include projections and estimates concerning the timing and success of specific projects, the size and timing of cost reductions, the level of future income, production volumes, size of hydrocarbon resources, ability to replace reserves and levels of capital spending. Actual results could differ materially based on numerous factors, including those described below. Unless otherwise noted in the statements, ARCO does not intend to update any forward-looking statements.

Price Volatility, Political, Economic and Regulatory Instability

Volatility in prices and margins affects all of the company's businesses. Volatility is caused by a number of factors, including changes in market supply and demand balances and fluctuations in political, regulatory and economic climates throughout the world.

The ability to operate ARCO's businesses is dependent on the politics and regulations in the U.S. and in the particular geographic regions where the company operates. The ability to negotiate and implement specific projects in

a timely and favorable manner may be impacted by political considerations unrelated to or beyond the control of the company.

Decline in Oil and Gas Prices

Any substantial or extended decline in oil and gas prices could have a material adverse effect on ARCO's financial position and results of operations, on the quantities of crude oil and natural gas reserves that economically may be produced and on the quantity of proved reserves that may be attributed to our properties.

Production Rates and Reserve Replacement

Projecting future rates of oil and gas production is inherently imprecise. Production rates of oil and gas reservoirs generally decline. Future production rates can be affected by price volatility and the company's ability to replace depleting reserves. There can be no assurances: (a) as to the level or timing of success, if any that the company will have in acquiring or finding and developing economically recoverable reserves; (b) that estimates of proved reserves will not be revised in the future; or (c) that the actual quantities of oil and gas ultimately recovered will not differ from the reserve estimates.

Refining & Marketing

Overall profitability of the company's refining and marketing operations depends heavily on the margin between the price of crude oil and/or purchased products and the sales price of products produced and/or purchased. Volumes produced and margins historically have been volatile and are impacted by market demand, regulatory changes (particularly environmental regulations regarding gasoline), the price of crude oil, and the ability of regional refiners and the company to provide a sufficient supply of refined products.

Operating Hazards

Operations are subject to various hazards common to the industry, including explosions, fires, uncontrollable spills, and damage from severe weather conditions.

<PAGE>

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements and Financial Statement Schedule

<TABLE>

<CAPTION>

Schedule

No.

Page

<C>

<S>

<C>

Report of Independent Auditors..... 36

Report of Independent Accountants..... 37

Financial Statements:

Consolidated Statement of Income..... 38

Consolidated Balance Sheet..... 39

Consolidated Statement of Cash Flows..... 40

Consolidated Statement of Changes in Stockholders' Equity... 41

Notes to Consolidated Financial Statements..... 42

Supplemental Information (Unaudited)..... 69

Supporting Financial Statement Schedule Covered by the

Schedules other than those listed above have been omitted since they are either not required, are not applicable, or the required information is shown in the financial statements or related notes.

Financial statements with respect to unconsolidated subsidiaries and 50% owned companies are omitted per Rule 3-09(a) of Regulation S-X.

35

<PAGE>

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of
Atlantic Richfield Company

We have audited the accompanying consolidated balance sheet of Atlantic Richfield Company as of December 31, 2000 and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended. Our audits also included the financial statement schedule for year ended December 31, 2000 listed in Item 8. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Atlantic Richfield Company at December 31, 2000 and the consolidated results of operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information for the year ended December 31, 2000 set forth therein.

Ernst & Young L.L.P.

Los Angeles, CA
March 14, 2001

36

<PAGE>

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
of Atlantic Richfield Company

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, changes in stockholders' equity and cash

Page 40

flows present fairly, in all material respects, the financial position of Atlantic Richfield Company and its subsidiaries at December 31, 1999, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the related financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California
January 31, 2000

37

<PAGE>

Consolidated Statement of Income

<TABLE>

<CAPTION>

Millions, except per share
amounts

| | 2000 | 1999 | 1998 |
|---|-----------|-----------|----------|
| <hr/> | | | |
| <S> | <C> | <C> | <C> |
| REVENUES | | | |
| Sales and other operating revenues | \$ 14,993 | \$ 11,694 | \$ 9,595 |
| Sales to related parties | 2,507 | 807 | 708 |
| Other revenues | 893 | 554 | 506 |
| Interest from related party | 305 | - | - |
| Total revenues | 18,698 | 13,055 | 10,809 |
| <hr/> | | | |
| EXPENSES | | | |
| Trade purchases | 6,725 | 4,816 | 3,875 |
| Trade purchases from related parties | 2,667 | 77 | 84 |
| Operating expenses | 2,685 | 2,386 | 2,794 |
| Selling, general and administrative expenses | 513 | 607 | 713 |
| Exploration expenses (including undeveloped leasehold amortization) | 303 | 386 | 629 |
| Depreciation, depletion and amortization | 1,617 | 1,785 | 1,535 |
| Impairment of oil and gas properties | 286 | 14 | 1,447 |
| Taxes other than income taxes | 471 | 475 | 506 |
| Interest | 426 | 398 | 259 |
| Interest - related party | 53 | - | - |

Page 41

2001-03 AR Annual Rpt (10K) for 2000.txt

| | | | |
|---|----------|----------|----------|
| Loss on disposition of Algeria assets | - | 175 | - |
| Restructuring costs | 742 | 20 | 249 |
| Total expenses | 16,488 | 11,139 | 12,091 |
| Income (loss) before items below | 2,210 | 1,916 | (1,282) |
| Gain on sale of Alaska oil and gas businesses and pipelines | 2,588 | - | - |
| Income (loss) from continuing operations before income taxes, minority interest and extraordinary item | 4,798 | 1,916 | (1,282) |
| Provision (benefit) for taxes on income | 1,629 | 533 | (651) |
| Minority interest in earnings of subsidiaries | 80 | 38 | 24 |
| Income (loss) from continuing operations before extraordinary item | 3,089 | 1,345 | (655) |
| Income from discontinued operations, net of income taxes of \$113 (1998) | - | - | 179 |
| Gain on disposition of discontinued operations, net of income taxes (benefit) of \$(1) (2000), \$58 (1999) and \$1,620 (1998) | 89 | 77 | 928 |
| Income before extraordinary item | 3,178 | 1,422 | 452 |
| Extraordinary loss on extinguishment of debt, net of income taxes of \$91 | 152 | - | - |
| Net income | \$ 3,026 | \$ 1,422 | \$ 452 |
| Earnings per share: | | | |
| Continuing operations | | | |
| Basic | | \$4.17 | \$(2.05) |
| Dilutive | | \$4.09 | \$(2.05) |
| Net income | | | |
| Basic | | \$4.41 | \$ 1.40 |
| Dilutive | | \$4.33 | \$ 1.40 |
| Weighted average equivalent shares outstanding: | | | |
| Basic | | 322.3 | 321.0 |
| Dilutive | | 328.8 | 321.0 |

</TABLE>

See Notes on pages 42 through 68.

<PAGE>

Consolidated Balance Sheet

<TABLE>

<CAPTION>

| Millions | 2000 | 1999 |
|---|-----------|-----------|
| <S> | <C> | <C> |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 92 | \$ 879 |
| Short-term investments | 202 | 264 |
| Accounts receivable | 1,185 | 1,167 |
| Accounts receivable from related parties | 90 | 134 |
| Inventories | 374 | 430 |
| Prepaid expenses and other current assets | 125 | 184 |
| Total current assets | 2,068 | 3,058 |
| Investments and long-term receivables: | | |
| Receivable from BP | 3,597 | - |
| Investments accounted for on the equity method | 1,484 | 1,508 |
| Other investments and long-term receivables | 1,660 | 1,660 |
| Total investments and long-term receivables | 6,741 | 3,168 |
| Net property, plant and equipment | 14,721 | 18,466 |
| Net assets of discontinued operations | - | 67 |
| Deferred charges and other assets | 1,420 | 1,513 |
| Total assets | \$ 24,950 | \$ 26,272 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Notes payable | \$ - | \$ 1,672 |
| Accounts payable | 1,073 | 830 |
| Taxes payable | 522 | 420 |
| Long-term debt due within one year | 304 | 11 |
| Other | 1,062 | 1,090 |
| Total current liabilities | 2,961 | 4,023 |
| Long-term debt | 4,090 | 5,698 |
| Deferred income taxes | 3,376 | 3,644 |
| Dismantlement, restoration and reclamation | 312 | 1,154 |
| Environmental reserves | 943 | 574 |
| Other deferred liabilities and credits | 2,186 | 2,196 |
| Minority interest | 150 | 297 |
| Total liabilities | 14,018 | 17,586 |
| Stockholders' equity: | | |
| Preference stocks | 1 | 1 |
| Common stock, \$2.50 par value; shares issued 327,436,320 (2000), 326,713,278 (1999), shares outstanding 324,711,290 (2000), 323,048,817 (1999) | 818 | 817 |
| Capital in excess of par value of stock | 959 | 889 |
| Retained earnings | 9,420 | 7,091 |
| Treasury stock | (217) | (279) |
| Accumulated other comprehensive income (loss) | (49) | 167 |
| Total stockholders' equity | 10,932 | 8,686 |
| Total liabilities and stockholders' equity | \$ 24,950 | \$ 26,272 |
| </TABLE> | | |

See Notes on pages 42 through 68.

39

<PAGE>

Consolidated Statement of Cash Flows

<TABLE>
 <CAPTION>
 Millions

| | 2000 | 1999 | 1998 |
|---|----------|----------|----------|
| <S> | <C> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Income (loss) from continuing operations and extraordinary item | \$ 2,937 | \$ 1,345 | \$ (655) |
| Adjustments to reconcile income to net cash provided by operating activities: | | | |
| Gain on sale of Alaskan oil and gas businesses and pipelines | (2,588) | - | - |
| Net gain on other asset sales | (466) | (70) | (61) |
| Depreciation, depletion and amortization | 1,617 | 1,785 | 1,535 |
| Impairment of oil and gas properties | 286 | 14 | 1,447 |
| Dry-hole expense and undeveloped leasehold amortization | 133 | 235 | 303 |
| Loss on Algeria asset disposal | - | 175 | - |
| Income from equity investments | (47) | (56) | (78) |
| Dividends from equity investments | 78 | 65 | 37 |
| Noncash provisions greater (less) than cash payments | 618 | (422) | 184 |
| Minority interest in earnings of subsidiaries | 80 | 38 | 24 |
| Deferred income taxes | (977) | 264 | (539) |
| Extraordinary loss on extinguishment of debt | 152 | - | - |
| Changes in working capital accounts | 644 | (654) | 307 |
| Other | (156) | 83 | 58 |
| Net cash provided by operating activities | 2,311 | 2,802 | 2,562 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Proceeds from sale of Alaskan oil and gas businesses and pipelines | 6,803 | - | - |
| Proceeds from other asset sales | 1,494 | 913 | 207 |
| Receivable from BP | (3,597) | - | - |
| Additions to fixed assets, including dry-hole costs | (2,078) | (2,727) | (3,551) |
| Acquisition of Vastar's minority interest | (1,618) | - | - |
| Net proceeds from sale of ARCO Chemical and U.S. coal assets | - | - | 3,988 |
| Union Texas Petroleum acquisition | - | - | (2,707) |
| Net cash provided (used) by short-term investments | 68 | (22) | (33) |
| Investment in/advances to LUKARCO | (246) | (144) | (59) |
| Investments and long-term receivables | (307) | (13) | (242) |
| Other | - | (4) | (73) |
| Net cash provided (used) by investing activities | 519 | (1,997) | (2,470) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Repayments of long-term debt | (1,416) | (1,019) | (503) |
| Proceeds from issuance of long-term debt | 94 | 1,999 | 536 |
| Net cash provided (used) by notes payable | (1,674) | (695) | 912 |
| Dividends paid | (697) | (920) | (917) |
| Treasury stock purchases | (7) | (2) | (32) |
| Other | 13 | 52 | 50 |

| | | | |
|--|---------|--------|--------|
| 2001-03 AR Annual Rpt (10K) for 2000.txt | | | |
| Net cash provided (used) by financing activities | (3,687) | (585) | 46 |
| Cash flows from discontinued operations | 52 | 13 | 85 |
| Effect of exchange rate changes on cash | 18 | (11) | - |
| Net increase (decrease) in cash and cash equivalents | (787) | 222 | 223 |
| Cash and cash equivalents at beginning of year | 879 | 657 | 434 |
| Cash and cash equivalents at end of year | \$ 92 | \$ 879 | \$ 657 |

</TABLE>

See Notes on pages 42 through 68.

40

<PAGE>

Consolidated Statement of Changes in Stockholders' Equity

<TABLE>

<CAPTION>

| Accumulated | | Common Stock | | Preference | Capital in | Treasury |
|-----------------------------------|---------------|--------------|----------|------------|---------------|----------|
| Stock | Other | Retained | Stock | | Excess of Par | Shares |
| Millions | Comprehensive | Shares | Dollars | Stock | | |
| Dollars* | Income (loss) | Earnings | Total | | | |
| - | | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Balance January 1, 1998 | <C> | <C> | <C> | <C> | <C> | <C> |
| (170) | \$ 348 | \$ 7,054 | \$ 8,680 | \$ 1 | \$ 640 | 2.3 |
| | | | | | | |
| Net income | | 452 | 452 | | | |
| Other comprehensive income: | | | | | | |
| Unrealized loss on securities | (681) | | (681) | | | |
| Foreign currency translation | (18) | | (18) | | | |
| Minimum pension liability | 7 | | 7 | | | |
| | | | | | | |
| Total comprehensive income (loss) | | | (240) | | | |
| Common stock dividends | | (915) | (915) | | | |
| Preference stock dividends | | | | | | |

2001-03 AR Annual Rpt (10K) for 2000.txt

| | | | | | | | |
|--------------------------|-----|-----|-------|---|-----|-------|-----|
| Common stock issued | (2) | 3.2 | (2) | 8 | | 226 | |
| | | | 234 | | | | |
| Treasury stock purchases | | | | | | | 3.2 |
| (249) | | | (249) | | | | |
| Treasury stock issued | | | | | (3) | (0.9) | |
| 75 | | | 72 | | | | |

| | | | | | | | |
|----------------------|---------|----------|----------|------|--------|-----|----|
| Balance December 31, | | | | | | | |
| 1998 | | 325.9 | \$ 815 | \$ 1 | \$ 863 | 4.6 | \$ |
| (344) | \$(344) | \$ 6,589 | \$ 7,580 | | | | |

| | | | | | | | |
|--------------------------|--|-------|-------|--|--|--|--|
| Net income | | 1,422 | 1,422 | | | | |
| Other comprehensive | | | | | | | |
| income: | | | | | | | |
| Unrealized gain on secu- | | | | | | | |
| rities | | | | | | | |
| 303 | | | 303 | | | | |
| Foreign currency trans- | | | | | | | |
| lation | | | | | | | |
| 192 | | | 192 | | | | |
| Minimum pension liabil- | | | | | | | |
| ity | | | | | | | |
| 16 | | | 16 | | | | |

| | | | | | | | |
|--------------------------|--|-----|-------|--|----|-------|---|
| Total comprehensive | | | | | | | |
| income | | | 1,933 | | | | |
| Common stock dividends | | | | | | | |
| (918) | | | (918) | | | | |
| Preference stock | | | | | | | |
| dividends | | | | | | | |
| (2) | | | (2) | | | | |
| Common stock issued | | 0.8 | 2 | | 21 | | |
| | | | 23 | | | | |
| Treasury stock purchases | | | | | | | - |
| (2) | | | (2) | | | | |
| Treasury stock issued | | | | | 5 | (0.9) | |
| 67 | | | 72 | | | | |

| | | | | | | | |
|----------------------|--------|----------|----------|------|--------|-----|----|
| Balance December 31, | | | | | | | |
| 1999 | | 326.7 | \$ 817 | \$ 1 | \$ 889 | 3.7 | \$ |
| (279) | \$ 167 | \$ 7,091 | \$ 8,686 | | | | |

| | | | | | | | |
|---------------------|--|-------|-------|--|--|--|--|
| Net income | | 3,026 | 3,026 | | | | |
| Other comprehensive | | | | | | | |
| income: | | | | | | | |
| Unrealized loss on | | | | | | | |
| securities | | | | | | | |
| (88) | | | (88) | | | | |
| Foreign currency | | | | | | | |

2001-03 AR Annual Rpt (10K) for 2000.txt

| | | | | | | | | |
|---------------------------------------|---------|----------|-----------|--------|-----|------|-------|--|
| translation | (158) | (158) | | | | | | |
| Minimum pension liability | 30 | 30 | | | | | | |
| <hr/> | | | | | | | | |
| Total comprehensive income | | 2,810 | | | | | | |
| Common stock dividends | (696) | (696) | | | | | | |
| Preference stock dividends | (1) | (1) | | | | | | |
| Common stock issued | 0.5 | 1 | | | | 52 | | |
| Treasury stock purchases | (7) | (7) | | | | | 0.1 | |
| Treasury stock issued | 59 | 87 | | | | 28 | (0.9) | |
| Cancellation of common stock shares | (324.5) | (812) | | | | (10) | (0.2) | |
| Issuance of common stock shares to BP | 324.7 | 812 | | | | | | |
| <hr/> | | | | | | | | |
| Balance December 31, 2000 | 327.4 | \$ 818 | \$ 1 | \$ 959 | 2.7 | \$ | | |
| (217) | \$ (49) | \$ 9,420 | \$ 10,932 | | | | | |

</TABLE>

*At cost
See Notes on pages 42 through 68.

<PAGE>

Notes to Consolidated Financial Statements

Note 1 Acquisition of ARCO by BP

On April 18, 2000, BP completed the acquisition of ARCO pursuant to the terms of the merger agreement dated March 31, 1999, as amended through March 27, 2000 (Merger Agreement). The Merger Agreement, approved by the boards of both BP and ARCO, provided for all common shareholders of ARCO, with the exception of BP, ARCO or any of their subsidiaries, to receive 9.84 BP ordinary shares, each in the form of BP American Depositary Shares (ADSs) or, at the election of the shareholder, BP ordinary shares, in return for the cancellation of each of their shares (other than the shares held by CH-Twenty Holdings, LLC, a subsidiary of ARCO) (the Cancelled ARCO Shares). It also provided for the issue to BP of new common shares equal in number to the Cancelled ARCO Shares. Any right to a fraction of a BP ADS or an odd lot of less than six BP ordinary shares was satisfied by a cash payment. In addition, the outstanding ARCO common stock was delisted from the New York Stock

Exchange (NYSE) and other exchanges on which it had been listed.

Following the acquisition, ARCO's outstanding shares of \$2.80 and \$3.00 Preference Stock remained listed on the NYSE. Pursuant to the Merger Agreement, each share of \$2.80 Preference Stock was converted into the right to receive 7.872 ADSS and each share of \$3.00 Preference Stock was converted into the right to receive 22.304 ADSS.

Following the acquisition of ARCO by BP, ARCO became part of the BP Group, and the ARCO businesses have been structured into business units, some of which were combined with other businesses of the BP Group. The operations within the BP Group are managed through four main businesses, Exploration and Production, Gas and Power, Refining and Marketing and Chemicals. Gas and Power and Chemical operations are not material for ARCO.

The financial position and results of operations of ARCO should be understood in the context of this relationship. The financial statements of ARCO reflect the historical costs to the previous shareholder group and, accordingly, do not reflect any purchase accounting adjustments related to the acquisition of ARCO by BP. Significant intercompany accounts and transactions between BP and its affiliates and ARCO are disclosed as related party transactions in Note 3.

Note 2 Accounting Policies

ARCO's accounting policies conform to accounting principles generally accepted in the United States, including the "successful efforts" method of accounting for oil and gas producing activities. Unless otherwise stated, the Notes to Consolidated Financial Statements exclude discontinued operations.

Principles of Consolidation

The consolidated financial statements include the accounts of all subsidiaries, ventures and partnerships in which a controlling interest is held. ARCO also consolidates its interests in undivided interest pipeline companies and in oil and gas joint ventures. ARCO uses the equity method of accounting for companies where its effective ownership is between 20% and 50% and for other ventures and partnerships in which a controlling interest is not held.

Revenue Recognition

Revenues are generally recognized upon the passage of title, net of royalties, if applicable.

Cash Equivalents

Cash equivalents consist of highly liquid investments, such as time deposits, certificates of deposit and marketable securities other than equity securities, maturing within three months of purchase. Cash equivalents are stated at cost, which approximates fair value.

<PAGE>

Notes to Consolidated Financial Statements

Oil and Gas Unproved Property Costs

Unproved property costs are initially capitalized. Significant unproved properties are not amortized but are periodically assessed for impairment. Other unproved properties are amortized on a composite basis, considering past success experience and average property life. In general, costs of properties surrendered or otherwise disposed of are charged to accumulated amortization. Costs of successful properties are transferred to developed properties. Exploratory wells that find oil and gas reserves which cannot be classified as proved within one year of discovery and do not continue to qualify as capitalized costs are charged to expense as dry-hole costs.

Fixed Assets

Fixed assets are recorded at cost and are written off on either the unit-of-production or straight-line method based on the expected lives of individual assets or groups of assets.

Upon disposal of assets depreciated on an individual basis, residual cost less salvage value is included in current income. Upon disposal of assets depreciated on a group basis, unless unusual in nature or amount, residual cost less salvage value is charged against accumulated depreciation.

Impairment of Long-lived Assets

Long-lived assets are assessed for possible impairment in accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," whenever changes in economic or operating conditions indicate the carrying amount may not be recoverable. If undiscounted future cash flows are less than the carrying amount, an impairment loss is recognized to the extent the carrying amount exceeds future discounted cash flows. For proved oil and gas properties, the assessment is performed on an individual field basis and is based on the company's price forecast used for economic decision making.

Dismantlement, Restoration and Reclamation Costs

The estimated costs, net of salvage value, of dismantling facilities or projects with limited lives or that are required to be dismantled by contract, regulation or law, and the estimated costs of restoration and reclamation associated with oil and gas operations are accrued during production and classified as a long-term liability. Such costs are taken into account in determining depreciation, depletion and amortization.

Environmental Remediation

Environmental remediation costs are accrued as operating expenses based on the estimated timing and extent of remedial actions required by applicable governmental authorities and the amount of ARCO's liability in consideration of the liability and financial wherewithal of other responsible parties. Estimated liabilities are not discounted to present value.

Stock-based Compensation

Employee stock options are accounted for under the intrinsic value method prescribed by Accounting Principles Board Opinion (APB) No. 25.

Earnings per Share

Earnings per share for 2000 has been omitted from ARCO's financial statements because ARCO had no publicly held common stock after ARCO's acquisition by BP on April 18, 2000.

Notes to Consolidated Financial Statements

Basic earnings per share was based on the average number of common shares outstanding during each period. Diluted earnings per share included as outstanding certain contingently issuable shares, primarily stock options and convertible preference stock.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Derivative Instruments

Prior to the acquisition of ARCO by BP, the company used a variety of

derivative instruments, both financial and commodity based, to minimize the market risks of commodity price, interest rate and foreign currency fluctuations. The company did not hold or issue derivative instruments for trading purposes and was not a party to leveraged instruments. All derivative instruments were off-balance sheet instruments; however, net receivable or payable positions related to derivative instruments were carried on the balance sheet. The nature of the transaction underlying a risk management strategy, primarily whether or not the instrument qualified as a hedge, determined which accounting method was used.

In order to qualify for hedge accounting, the derivative instrument must be effective as a hedge and designated as such.

Deferral accounting was used for the following types of transactions (if the instrument qualified as a hedge): future crude oil and natural gas production; fixed-price crude oil and natural gas purchase and sale commitments; U.S. dollar-denominated debt issued by a foreign subsidiary; debt denominated in a foreign currency; and anticipated foreign currency commitments. Under this method, deferred gains and losses were included in other assets or accrued liabilities until the designated underlying item was recognized in income. Recognized gains and losses were recorded in sales and other operating revenues, other revenues or trade purchases depending on the underlying item associated with the derivative. Instruments typically used in these transactions were crude oil and natural gas swap and price collar contracts and some foreign currency swap, forward and option contracts.

The accrual method of accounting was used for interest rate swap agreements entered into by the company which convert the interest rate on fixed-rate debt to a variable rate. Under the accrual method, each net payment or receipt due or owed under the derivative was recognized in income in the period to which the payment or receipt relates. Amounts to be paid/received under these agreements were recognized as an adjustment to interest expense. The related amounts payable to/receivable from the counterparties were included in other accrued liabilities.

The fair value method of accounting was used for any derivative instrument that did not qualify as a hedge. The fair value method, whereby gains and losses associated with changes in fair value of a derivative instrument were recognized currently in income or in accumulated other comprehensive income, was used for the following derivative instruments: foreign currency forward and option contracts associated with anticipated future cash flows related to overseas operations, and foreign currency swap contracts associated with foreign-denominated intercompany debt with maturities exceeding one year. Changes in fair value of all transactions accounted for under this method were recognized currently in income and reported as other revenues.

Under all methods of accounting, the cash flows related to any recognized gains or losses associated with derivative instruments were reported as cash flows from operations.

<PAGE>

Notes to Consolidated Financial Statements

If a derivative instrument designated as a hedge was terminated prior to expected maturity, gains or losses were deferred and included in income when the underlying hedged item was recognized in income.

When the designated item associated with a derivative instrument matured, was sold, extinguished or terminated, gains or losses were recognized as part of the gain or loss on sale or settlement of the underlying item. When a derivative instrument was associated with an anticipated transaction that was no longer expected to occur, the gain or loss on the derivative was recognized immediately in income.

Reclassifications

Certain previously reported amounts have been restated to conform to classifications adopted in 2000.

Note 3 Relationship with BP and Other Related Party Transactions

Following the acquisition of ARCO by BP on April 18, 2000, BP and certain of its affiliates began providing certain senior management services, legal services, tax services, risk management and various other corporate services to ARCO. The incremental cost of these services is not material and is not included in the financial statements of ARCO.

ARCO participates in BP's cash management system, where the bank sends daily notification of checks presented for payment. BP transfers funds from other sources to cover the checks presented for payment. This program generally results in book overdrafts as a result of checks outstanding. At December 31, 2000, these book overdrafts have been reclassified to accounts payable.

Sales to and purchases from BP or its subsidiaries consisted primarily of the sale or purchase of petroleum liquids and natural gas. The sales to other related parties primarily included sales to Southern Company Energy Marketing (SCEM), an equity affiliate of Vastar Resources, Inc. (Vastar) and consisted of sales of natural gas produced by Vastar. Vastar sold its interest in SCEM in September, 2000.

Sales to related parties were as follows:

<TABLE>
<CAPTION>

| | Year Ended December | | |
|-----------------------------------|---------------------|--------|-------------|
| (millions) | 2000 | 1999 | 31, 1998 |
| <hr/> | | | |
| <S> | <C> | <C> | <C> |
| BP | \$ 1,600 | \$ -- | \$ -- |
| Southern Company Energy Marketing | 820 | 807 | 708 |
| Other | 87 | -- | -- |
| | <hr/> | | |
| | \$ 2,507 | \$ 807 | \$ 708 |
| | <hr/> | | |

</TABLE>

Purchases from related parties were as follows:

<TABLE>
<CAPTION>

| | Year Ended December | | |
|-----------------------------------|---------------------|-------|-------------|
| (millions) | 2000 | 1999 | 31, 1998 |
| <hr/> | | | |
| <S> | <C> | <C> | <C> |
| BP | \$ 2,586 | \$ -- | \$ -- |
| Southern Company Energy Marketing | 71 | 77 | 84 |
| Other | 10 | -- | -- |
| | <hr/> | | |
| | \$ 2,667 | \$ 77 | \$ 84 |
| | <hr/> | | |

</TABLE>

ARCO and its subsidiaries will join with BP America Inc. (BP America), a subsidiary of BP, in filing a consolidated federal income tax return for periods subsequent to the acquisition of ARCO by BP. ARCO and BP America are parties to a tax sharing agreement which requires ARCO as a member of BP America's consolidated tax group to pay its share of the group's federal income taxes and certain state and local taxes to BP America. ARCO's share of these taxes is generally the amount of federal income tax it would have to pay if ARCO and its subsidiaries filed tax returns as a separate tax group.

<PAGE>

Notes to Consolidated Financial Statements

ARCO entered into a long-term deposit agreement with BP America in which the initial deposit consisted of the proceeds from the sale of the Alaskan oil and gas businesses. Subject to the provisions of early termination the funds will continue to be on deposit until January 1, 2002. In September 2000, ARCO withdrew \$1.5 billion to purchase Vastar's publicly held minority stockholding. The interest rate is tied to the LIBOR rate or such other rate as may be agreed between the parties.

Note 4 Sale of Alaskan Operations

In the second quarter of 2000 ARCO completed the sale of its Alaskan operations, comprising oil and gas production, crude oil marine transportation and related crude oil inventory, for proceeds totaling approximately \$6.2 billion and realized an after-tax gain of approximately \$1.8 billion. The net book value of those assets at the time of the sale was approximately \$3.2 billion. The gain on the inventory portion of the sale included a \$69 million after-tax gain from LIFO inventory liquidation. The results of the Alaskan oil and gas producing and marine transportation operations through the dates of sale are included in ARCO's twelve-month results ended December 31, 2000.

In the third quarter of 2000 ARCO sold its Alaskan pipeline operations, thereby completing the sale of all Alaskan operations mandated by the Federal Trade Commission in obtaining approval for the acquisition of ARCO by BP. ARCO received proceeds of \$308 million and recorded an after-tax loss of \$34 million. The results of the Alaskan pipeline operations through the date of sale are included in ARCO's twelve-month results ended December 31, 2000.

The following table sets forth the operating results for the Alaskan oil and gas producing, pipeline and marine transportation businesses included in ARCO's financial statements for the periods indicated.

<TABLE>

<CAPTION>

| (millions) | Year Ended December 31, | | |
|---|-------------------------|----------|----------|
| | 2000 | 1999 | 1998 |
| <S> | <C> | <C> | <C> |
| Revenues | | | |
| Sales and other operating revenues* | \$ 1,209 | \$ 1,822 | \$ 1,538 |
| Total revenues | 1,034 | 1,881 | 1,595 |
| Expenses | | | |
| Operating expenses | 146 | 372 | 447 |
| Depreciation, depletion and amortization | 135 | 363 | 352 |
| Exploration expenses | 23 | 50 | 46 |
| Taxes other than income taxes | 110 | 239 | 211 |
| Interest | 38 | 9 | 10 |
| Total expenses | 452 | 1,033 | 1,066 |
| Income from continuing operations before income taxes and minority interest | \$ 582 | \$ 848 | \$ 529 |
| * Before elimination of intercompany transfers | \$ 861 | \$ 1,713 | \$ 1,334 |

</TABLE>

Note 5 Sale of Certain Lower 48 Pipeline Assets

In order to obtain approval for the acquisition of ARCO by BP, the Federal

Trade Commission also required that ARCO sell certain Lower 48 pipeline assets. The sale of those assets was completed in August 2000 for net proceeds totaling approximately \$314 million and ARCO recorded an after-tax gain on the sale of approximately \$8 million in the third quarter of 2000. The net book value of the Lower 48 pipeline assets sold was approximately \$304 million.

46

<PAGE>

Notes to Consolidated Financial Statements

Note 6 Merger Agreement between ARCO and Vastar

On September 15, 2000, Vastar's common stock minority shareholders approved the merger agreement between ARCO and Vastar. Following the approval, 18,252,609 shares of Vastar common stock were purchased by ARCO at a price of \$83 per share for a total purchase price of \$1,618 million (including \$103 million primarily for the buyout of employee stock options then outstanding). Vastar is now a 100% owned subsidiary of ARCO.

Note 7 Segment Information

Segment information has been prepared in accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." ARCO has two reportable segments: exploration and production (E&P) and refining and marketing (R&M). The segments were determined based upon types of products produced/sold by each segment. Segment performance is evaluated based upon net income, excluding interest expense.

The E&P segment is an aggregation of several business units engaged in one or more of the following: the worldwide exploration, development and production of petroleum liquids (crude oil, condensate and natural gas liquids) and natural gas; the purchase and sale of petroleum liquids and natural gas, and prior to the sale discussed in Note 4, the transportation via pipeline of petroleum liquids within the State of Alaska. The company's investments in the LUKARCO joint venture and LUKOIL common stock are included in the E&P segment as well.

The R&M segment comprises the refining of crude oil, primarily from the North Slope of Alaska; the marketing of petroleum products, primarily in the West Coast region of the U.S.; and, prior to the sale discussed in Note 4, the transportation of petroleum liquids and petroleum products via ocean-going tankers, primarily between Alaska and the West Coast. The company's equity investment in Zhenhai Refining and Chemical Company is included in the R&M segment as well.

Revenue from other operating segments is attributable to the pipeline transportation and storage of petroleum liquids and petroleum products in the 48 contiguous United States and operations of an aluminum business.

47

<PAGE>

Notes to Consolidated Financial Statements

Intersegment sales were made at prices approximating current market value.

Segment Information

<TABLE>

<CAPTION>

2000

| Millions | Exploration & Production | Refining & Marketing | All Other | Unallocated Items |
|----------|-----------------------------|-------------------------|-----------|----------------------|
| Totals | | | | |

2001-03 AR Annual Rpt (10K) for 2000.txt

| <S> | <C> | <C> | <C> | <C> | <C> |
|--|----------|-----------|--------|-----------|-----|
| Sales and other operating revenue: | | | | | |
| U.S. | \$ 5,480 | \$ 10,157 | \$ 510 | \$ - | \$ |
| 16,147 | | | | | |
| International | 2,132 | 74 | - | 5 | |
| 2,211 | | | | | |
| Intersegment revenues (858) | (853) | - | - | (5) | |
| Total | 6,759 | 10,231 | 510 | - | |
| 17,500 | | | | | |
| Income from equity affiliates | 41 | (4) | 10 | - | |
| 47 | | | | | |
| Interest revenue | 70 | 40 | 5 | 365 | |
| 480 | | | | | |
| Interest expense | - | - | - | 479 | |
| 479 | | | | | |
| Depreciation, depletion and amortization | 1,331 | 260 | 19 | 7 | |
| 1,617 | | | | | |
| Income tax expense (benefit) | 1,660 | 156 | 33 | (220) | |
| 1,629 | | | | | |
| Net income (loss) (b) | 3,400 | 271 | 47 | (692) (a) | |
| 3,026 | | | | | |
| Investment in equity affiliates | 1,233 | 206 | 60 | (15) | |
| 1,484 | | | | | |
| Property, plant and equipment (net): | | | | | |
| U.S. | 5,525 | 2,725 | 424 | 53 | |
| 8,727 | | | | | |
| International | 5,968 | 26 | - | - | |
| 5,994 | | | | | |
| Additions to fixed assets | 1,714 | 334 | 30 | - | |
| 2,078 | | | | | |
| Segment assets | 14,367 | 4,427 | 836 | 5,320 | |
| 24,950 | | | | | |
| <CAPTION> | | | | | |

1999

| <S> | <C> | <C> | <C> | <C> | <C> |
|------------------------------------|----------|----------|-------|------|-----|
| Sales and other operating revenue: | | | | | |
| U.S. | \$ 5,045 | \$ 6,941 | \$ 46 | \$ - | \$ |
| 12,032 | | | | | |
| International | 1,977 | 59 | - | 10 | |
| 2,046 | | | | | |
| Intersegment revenues (1,577) | (1,563) | - | (4) | (10) | |
| Total | 5,459 | 7,000 | 42 | - | |
| 12,501 | | | | | |

2001-03 AR Annual Rpt (10K) for 2000.txt

| | | | | |
|--|--------|-------|-----|----------|
| Income from equity affiliates | 20 | - | 36 | - |
| 56 | | | | |
| Interest revenue | 30 | 25 | - | 71 |
| 126 | | | | |
| Interest expense | - | - | - | 398 |
| 398 | | | | |
| Depreciation, depletion and amortization | 1,501 | 268 | 9 | 7 |
| 1,785 | | | | |
| Income tax expense (benefit) | 366 | 334 | 52 | (219) |
| 533 | | | | |
| Net income (loss) | 938 | 593 | 87 | (196)(a) |
| 1,422 | | | | |
| Investment in equity affiliates | 972 | 190 | 342 | 4 |
| 1,508 | | | | |
| Property, plant and equipment (net): | | | | |
| U.S. | 7,735 | 3,225 | 170 | 101 |
| 11,231 | | | | |
| International | 7,212 | 23 | - | - |
| 7,235 | | | | |
| Additions to fixed assets | 2,225 | 481 | 5 | 16 |
| 2,727 | | | | |
| Segment assets | 18,752 | 4,695 | 916 | 1,909(c) |
| 26,272 | | | | |
| <CAPTION> | | | | |

1998

| | | | | | |
|--|----------|----------|--------|--------|-----|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Sales and other operating revenue: | | | | | |
| U.S. | \$ 4,374 | \$ 5,457 | \$ 156 | \$ - | \$ |
| 9,987 | | | | | |
| International | 1,562 | 27 | - | 14 | |
| 1,603 | | | | | |
| Intersegment revenues | (1,179) | (14) | (80) | (14) | |
| (1,287) | | | | | |
| Total | 4,757 | 5,470 | 76 | - | |
| 10,303 | | | | | |
| Income from equity affiliates | 25 | 19 | 34 | - | |
| 78 | | | | | |
| Interest revenue | 18 | 5 | - | 96 | |
| 119 | | | | | |
| Interest expense | - | - | - | 259 | |
| 259 | | | | | |
| Depreciation, depletion and amortization | 1,239 | 252 | 18 | 26 | |
| 1,535 | | | | | |
| Income tax expense (benefit) | (563) | 145 | 65 | (298) | |
| (651) | | | | | |
| Net income (loss) | (616) | 281 | 111 | 676(a) | |
| 452 | | | | | |
| Investment in equity | | | | | |

| | 2001-03 AR Annual Rpt (10K) for 2000.txt | | | |
|--------------------------------------|--|-------|-------|----------|
| affiliates | 661 | 219 | 344 | 11 |
| 1,235 | | | | |
| Property, plant and equipment (net): | | | | |
| U.S. | 7,420 | 2,939 | 432 | 132 |
| 10,923 | | | | |
| International | 7,824 | 15 | - | - |
| 7,839 | | | | |
| Additions to fixed assets | 3,020 | 488 | 38 | 5 |
| 3,551 | | | | |
| Segment assets | 18,203 | 3,826 | 1,119 | 2,051(c) |
| 25,199 | | | | |
| </TABLE> | | | | |

-
- (a) Includes: income from discontinued operations of \$179 in 1998; gain on disposition of discontinued operations of \$89, \$77 and \$928 in 2000, 1999 and 1998, respectively; and extraordinary loss of \$152 in 2000.
- (b) Includes gain/(loss) on sale of Alaska oil and gas businesses and pipelines of \$1,809, \$(6), and \$8, allocated to E&P, R&M and other, respectively.
- (c) Includes assets of discontinued operations of \$67 (1999) and \$339 (1998).

48

<PAGE>

Notes to Consolidated Financial Statements

Note 8 Acquisition of Union Texas Petroleum Holdings, Inc.

In June 1998, ARCO completed its tender offer for all outstanding common shares of Union Texas Petroleum Holdings, Inc. (UTP) for approximately \$2.5 billion, or \$29 per share in cash. ARCO also purchased in a tender offer 1,649,500 shares of UTP's 7.14% Series A Cumulative Preferred Stock for approximately \$200 million, or \$122 per share in cash. UTP was a U.S.-based, non-integrated oil and gas company with substantially all of its oil and gas producing operations conducted outside of the U.S. in the United Kingdom sector of the North Sea, Indonesia, Venezuela and Pakistan.

The acquisition was accounted for as a purchase. The results of operations of UTP are included in the consolidated financial statements of ARCO as of July 1, 1998. The cost of the acquisition was allocated on the basis of the estimated fair value of the assets acquired and liabilities assumed and there are no contingencies or other matters that could affect the allocation of the purchase cost.

Liabilities assumed included employee termination costs of \$90 million and other costs associated with the merging of UTP's businesses into ARCO's operations, such as lease and other contract cancellation costs, totalling \$18 million, of which \$7 million were non-cash charges. All cash costs were paid by December 31, 2000.

The following unaudited pro forma summary presents information as if UTP had been acquired as of the beginning of ARCO's fiscal year 1998. The pro forma amounts include certain adjustments, primarily to recognize depreciation, depletion and amortization based on the allocated purchase price of UTP assets, and do not reflect any benefits from economies which might be achieved from combining operations. The pro forma information does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations of the combined companies:

<TABLE>

<CAPTION>

Millions, except per share amounts

1998

2001-03 AR Annual Rpt (10K) for 2000.txt

| | |
|--|-----------|
| <S> | <C> |
| Sales and other operating revenues | \$ 10,570 |
| Income (loss) from continuing operations before extraordinary item | \$ (702) |
| Income from and gains on discontinued operations | 1,107 |
| Extraordinary loss | - |
| Net income | \$ 405 |
| Earnings (loss) per share | |
| Basic | |
| Continuing operations | \$ (2.19) |
| Discontinued operations | 3.45 |
| Extraordinary loss | - |
| Net income | \$ 1.26 |
| Diluted | |
| Continuing operations | \$ (2.19) |
| Discontinued operations | 3.45 |
| Extraordinary loss | - |
| Net income | \$ 1.26 |
| </TABLE> | |

Note 9 Discontinued Operations

Coal

In the second quarter of 2000, ARCO disposed of its remaining coal assets in Australia. Upon the sale of those assets, a provision originally established in 1998 for the estimated loss on sale of U.S. and Australian coal assets was reduced resulting in an after-tax gain of \$89 million.

49

<PAGE>

Notes to Consolidated Financial Statements

In the first quarter of 1999, ARCO disposed of its interests in two Australian coal mines. ARCO disposed of its 80% interest in the Gordonstone coal mine and its 31.4% interest in the Blair Athol Joint Venture. At December 31, 1999, the carrying value of the remaining Australian coal assets was \$67 million and was included as net assets of discontinued operations on the balance sheet.

In June 1998, ARCO disposed of its U.S. coal operations in a transaction with Arch Coal. Operations disposed of included the Black Thunder and Coal Creek mines in Wyoming, the West Elk mine in Colorado, and ARCO's 65% interest in three mines in Utah. The Colorado and Utah mines were sold outright. ARCO contributed its Wyoming coal operations and Arch Coal transferred various of its coal operations into a new joint venture that is 99% owned by Arch Coal and 1% owned by ARCO.

In 1998, ARCO recorded a \$92 million provision for the estimated loss on the disposal of the U.S. and Australian coal assets. In 1999, upon completion of the Australian sales noted above, the provision was reduced, resulting in an after-tax gain of \$22 million.

Chemicals

In July 1998, ARCO tendered its entire interest of 80 million shares of ARCO Chemical Company common stock to Lyondell Chemical Company (Lyondell) for \$57.75 per share, or total cash proceeds of approximately \$4.6 billion. After deferral of \$313 million of the pre-tax gain, ARCO recorded an after-tax gain

Page 57

2001-03 AR Annual Rpt (10K) for 2000.txt
of approximately \$1.1 billion in 1998 from the sale of the shares.

The \$313 million deferral represents the estimated discounted present value of the difference, over the remaining term of an above-market MTBE contract between ARCO and ARCO Chemical, between the contract price and the spot market price for MTBE. The deferral is being amortized over the remaining term of the contract, ending in 2002, on the basis of annual volume over total contracted volume.

In 1999, adjustments for tax benefits resulted in the recording of an additional after-tax gain of \$59 million on the disposition of ARCO Chemical.

At the time of the acquisition of UTP, ARCO determined it would sell UTP's petrochemical business. Accordingly, in 1998, ARCO recorded a \$33 million after-tax provision for loss on the sale of the assets. If depreciation had not been suspended for the last six months of 1998, the petrochemical business would have had a loss of \$5 million for 1998. In March 1999, ARCO sold the UTP petrochemical business and recorded an additional loss of \$4 million.

Revenues and net income from discontinued operations were as follows:

| <TABLE> <CAPTION> Millions | | | |
|----------------------------------|-------|-------|----------|
| | 2000 | 1999 | 1998 |
| ----- | | | |
| <S> | <C> | <C> | <C> |
| Revenues: | | | |
| ARCO Chemical | \$ - | \$ - | \$ 1,990 |
| Coal operations | \$ 56 | \$ 97 | \$ 338 |
| UTP petrochemical | \$ - | \$ 25 | \$ 58 |
| Net income: | | | |
| ARCO Chemical | \$ - | \$ - | \$ 170 |
| Coal operations | - | - | 9 |
| UTP petrochemical | - | - | - |
| | \$ - | \$ - | \$ 179 |
| | ===== | | |
| Gain on disposition: | | | |
| ARCO Chemical | \$ - | \$ 59 | \$ 1,053 |
| Coal operations | 89 | 22 | (92) |
| UTP | - | (4) | (33) |
| | \$ 89 | \$ 77 | \$ 928 |
| | ===== | | |

</TABLE>

50

<PAGE>

Notes to Consolidated Financial Statements

Note 10 Accounting Changes

Effective January 1, 1999, ARCO adopted Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," and SOP 98-5, "Reporting on the Costs of Start-up Activities." SOP 98-5 states that costs of start-up activities should be expensed as incurred. The implementation of SOP 98-5 did not have a material cumulative effect on ARCO's results of operations (less than \$0.01 per share). SOP 98-1 establishes criteria for determining how the costs of developing or obtaining internal-use computer software should be accounted for. SOP 98-1 was adopted prospectively and therefore there was no cumulative effect of adoption.

Note 11 Restructuring Costs

During 2000 the company recorded restructuring costs of \$742 million before tax in conjunction with the merger into BP (See Note 1), comprised of the

Page 58

following:

| <TABLE> | |
|---------------------------------|-------|
| <S> | |
| Personnel terminations..... | \$366 |
| Facilities closure..... | 88 |
| Stock-related compensation..... | 98 |
| Merger costs..... | 101 |
| UK shutdown costs..... | 58 |
| Other shutdown costs..... | 31 |
| | ----- |
| | \$742 |
| | ===== |

</TABLE>

Personnel termination costs relate to the severance of approximately 2,050 employees, primarily at the corporate headquarters and Vastar, a technical support center in Texas, and various operating units worldwide. This did not include costs related to the termination of foreign national employees. This represents specific employee terminations identified as of December 2000; further charges may be necessary in future periods if additional terminations become known.

Additionally, approximately 700 terminations were identified related to Alaskan oil and gas and lower 48 pipeline operations sold during 2000. These costs were included as part of the net gain on sale of those operations.

The following table summarizes the charges related to the terminations that resulted from ARCO's merger into BP:

<TABLE>
<CAPTION>

| (\$ millions) | Terminations | Short-term Benefits(a) | Funded Long-term Benefits(b) | Unfunded Long-term Benefits(c) | Total |
|-------------------------|--------------|---------------------------|------------------------------------|--------------------------------------|-------|
| ----- | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Reported as | | | | | |
| restructuring costs.... | 2,050 | \$118 | \$199 | \$49 | \$366 |
| Reported with gain on | | | | | |
| sale of assets..... | 700 | 30 | 66 | -- | 96 |
| | ----- | ----- | ----- | ----- | ----- |
| Total..... | 2,750 | \$148 | \$265 | \$49 | \$462 |
| | ===== | ===== | ===== | ===== | ===== |

</TABLE>

- (a) Severance payments and ancillary benefits such as relocation and outplacement.
 (b) Net increase in pension benefits to be paid from assets of qualified plans.
 (c) Net increase in non-qualified pension benefits and other postretirement benefits to be paid from Company funds.

Through December 31, 2000, approximately 1,530 employees have been terminated and approximately \$84 million of severance and ancillary benefits have been paid and charged against the accrual. Payments made do not necessarily correlate to the number of terminations due to the ability of terminees to defer receipt of certain payments. The remaining severance and ancillary benefits are expected to be paid by the second quarter 2002.

A reserve of \$88 million was established for office space and facilities, primarily in Los Angeles and Houston, that will be vacated with no future economic benefit. Cash payments will be made through the remaining terms of the leases, the longest (and largest) of which extends to 2012.

<PAGE>

Notes to Consolidated Financial Statements

The charge of \$98 million for stock-related compensation related to compensation benefits from contingent restricted stock and dividend share credits on stock options granted to executives and key employees. The benefits, which ordinarily would have been reported as compensation expense in future periods, were accelerated upon the change of control of the company.

Merger costs represent costs directly related to the consummation of the merger, primarily for investment and legal consultants, which have been paid.

The remainder of the unusual items charge is comprised of shutdown costs (such as foreign national terminations and other location-specific costs) for offices in the United Kingdom and other worldwide locations.

Through December 31, 1999, the company had previously established reserves totaling \$251 million for the costs of terminating 1,250 employees. \$103 million related to short-term benefits such as severance payments and ancillary benefits such as relocation and outplacement; \$148 million related to pension and other postretirement benefits. Through December 31, 2000, approximately 1,200 employees have been terminated and approximately \$97 million of severance and ancillary benefits have been paid and charged against the short-term benefit accrual. The remaining employees will terminate under the 2000 merger change of control severance program with the previously established reserves deemed adequate.

Union Texas Petroleum Holdings, Inc. (UTP) Restructure.

Through December 31, 2000, the company established a \$90 million provision for the termination of 357 employees from the integration of UTP into ARCO's operations. As of December 31, 2000, ARCO had terminated 355 of the employees and had paid out a total of \$85 million in severance benefits.

Note 12 Inventories

Inventories are recorded when purchased, produced or manufactured and are stated at the lower of cost or market. In 2000, approximately 75% of inventories, excluding materials and supplies, were determined by the last-in, first-out (LIFO) method. Materials and supplies and other non-LIFO inventories are determined predominantly on an average cost basis.

Total inventories at December 31 comprised the following:

<TABLE>

<CAPTION>

| Millions | 2000 | 1999 |
|----------------------------------|--------|--------|
| <hr/> | | |
| <S> | <C> | <C> |
| Crude oil and petroleum products | \$ 147 | \$ 199 |
| Other products | 113 | 26 |
| Materials and supplies | 114 | 205 |
| <hr/> | | |
| Total | \$ 374 | \$ 430 |
| <hr/> | | |

</TABLE>

The excess of the current cost of inventories over book value was approximately \$236 million and \$246 million at December 31, 2000 and 1999, respectively.

Note 13 Investments

At December 31, 2000 and 1999, investments in debt securities were primarily composed of U.S. Treasury securities and corporate debt instruments. Maturities generally ranged from one month to ten years. These investments are classified as short or long term depending on maturity. ARCO's investments in

LUKOIL common stock and Zhenhai Refining and Chemical Company convertible bonds were included in other investments and long-term receivables. At December 31, 2000 and 1999, all investments were classified as available-for-sale and were reported at fair value, with unrealized holding gains and losses, net of tax, reported in accumulated other comprehensive income.

<PAGE>

Notes to Consolidated Financial Statements

The following summarizes investments at December 31:

| <TABLE> <CAPTION> Millions | | 2000 | 1999 |
|----------------------------------|----|-------|----------|
| | | | |
| <S> | | <C> | <C> |
| Aggregate fair value | \$ | 1,395 | \$ 1,501 |
| Gross unrealized holding losses | | 2 | 7 |
| Gross unrealized holding gains | | (218) | (376) |
| Amortized cost | \$ | 1,179 | \$ 1,132 |

</TABLE>

Investment activity for the years ended December 31 was as follows:

| <TABLE> <CAPTION> Millions | | 2000 | 1999 |
|----------------------------------|----|-------|-----------|
| | | | |
| <S> | | <C> | <C> |
| Gross purchases | \$ | 6,805 | \$ 20,269 |
| Gross sales | | 848 | 746 |
| Gross maturities | | 5,910 | 19,439 |

</TABLE>

Gross realized gains and losses were insignificant and were determined by the specific identification method.

[LOGO OF ARCO]

Note 14 Fixed Assets

Property, plant and equipment at December 31 was as follows:

| <TABLE> <CAPTION> | | 2000 | | 1999 | |
|--------------------------|----|----------|----------|----------|----------|
| Millions | | Gross | Net | Gross | Net |
| | | | | | |
| <S> | | <C> | <C> | <C> | <C> |
| Exploration & production | \$ | 22,383 | \$11,493 | \$33,490 | \$14,947 |
| Refining & marketing | | 5,362 | 2,751 | 6,024 | 3,248 |
| Other operations | | 618 | 424 | 279 | 170 |
| Unallocated | | 160 | 53 | 264 | 101 |
| Total | | \$28,523 | \$14,721 | \$40,057 | \$18,466 |

</TABLE>

Expenses for maintenance and repairs for 2000, 1999 and 1998 were \$244

2001-03 AR Annual Rpt (10K) for 2000.txt
million, \$292 million and \$387 million, respectively.

In 2000, ARCO recorded an impairment charge of \$286 million before tax primarily related to several Latin American oil fields along with smaller impairments of properties in the United States and Europe.

Note 15 Short-term Borrowings and Bank Credit Facilities

Notes payable consist primarily of ARCO's commercial paper issued to a variety of financial investors and institutions and any amounts outstanding under ARCO credit facilities. There were no short-term notes payable outstanding at December 31, 2000. The weighted average interest rate on notes payable outstanding at December 31, 1999 was 6.0%. In April 2000, following the acquisition of ARCO by BP, ARCO's \$3.0 billion unused committed bank credit facility was terminated.

53

<PAGE>

Notes to Consolidated Financial Statements

Note 16 Long-term Debt

Long-term debt at December 31 comprised the following:

<TABLE>
<CAPTION>
Millions

| | 2000 | 1999 |
|---|--------|--------|
| <S> | <C> | <C> |
| 5.55%, due in 2003 | \$ 500 | \$ 500 |
| 5.9%, due in 2009 | 500 | 500 |
| 8 1/4%, due in 2022 | 70 | 245 |
| 8 1/2%, due in 2012 | 178 | 178 |
| 8 3/4%, due in 2032 | 34 | 159 |
| 9%, due in 2021 | 15 | 209 |
| 9%, due in 2031 | 28 | 97 |
| 9 1/8%, due in 2011 | 253 | 253 |
| 9 1/8%, due in 2031 | 28 | 155 |
| 9 7/8%, due in 2016 | 36 | 181 |
| 10 7/8%, due in 2005 | 410 | 410 |
| Series A Medium-Term Notes, (c) 9.37%(a) | 77 | 84 |
| Series B Medium-Term Notes, (d) 8.18%(a) | 250 | 250 |
| Variable rate, due in 2031, 3.57%(b) | - | 265 |
| Variable rate, due in 2032, 4.15%(a) | 108 | 108 |
| Capital Construction Fund, 7.00%(e) | 490 | 391 |
| Vastar: | | |
| Commercial paper, 6.64%(b) | - | 226 |
| 6% Putable/Callable Notes, due in 2010 | - | 100 |
| 6.39%, due in 2008 | 50 | 50 |
| 6 1/2%, due in 2009 | 299 | 299 |
| 6.95%, due in 2006 | 75 | 75 |
| 6.96%, due in 2007 | 75 | 75 |
| 8.75%, due in 2005 | 150 | 150 |
| Union Texas Petroleum: | | |
| 6.66%, due in 2002 through 2007 | 100 | 100 |
| 7.40%, due in 2038 | 150 | 150 |
| 8 3/8%, due in 2005 | 125 | 125 |
| 8 1/2%, due in 2007 | 75 | 75 |
| Other | 318 | 299 |
| Total, including debt due within one year | 4,394 | 5,709 |

2001-03 AR Annual Rpt (10K) for 2000.txt

| | | |
|-------------------------------|----------|----------|
| Less debt due within one year | 304 | 11 |
| Long-term debt | \$ 4,090 | \$ 5,698 |

=====

</TABLE>

-
- (a) weighted average interest rate at December 31, 2000.
 (b) weighted average interest rate at December 31, 1999.
 (c) Maturities vary through 2011.
 (d) Maturities vary through 2012.
 (e) The Capital Construction Fund is a related party. Maturities vary through 2032.

Maturities for the five years subsequent to December 31, 2000, are as follows:

<TABLE>
 <CAPTION>
 Millions

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|--|------|------|------|------|------|
|--|------|------|------|------|------|

<S>

| | | | | | |
|------------|--------|--------|--------|------|--------|
| Maturities | \$ 304 | \$ 135 | \$ 500 | \$ 3 | \$ 685 |
|------------|--------|--------|--------|------|--------|

</TABLE>

During 2000, Vastar's \$1.1 billion commercial paper program and \$1.1 billion revolving credit facility were terminated.

In April 1998, Vastar issued \$100 million of 6% Putable/Callable Notes due April 20, 2010 Putable/Callable April 20, 2000. In 1998, Vastar also entered into an interest rate swap covering the Putable/Callable Notes, which effectively changed the 6% fixed rate to a floating rate. The effective interest rate paid on these notes, which were redeemed in 2000, was 6.17%. The financial impact of swaps in 1999 and 1998 was immaterial.

54

<PAGE>

Notes to Consolidated Financial Statements

Extraordinary Loss on Extinguishment of Debt

ARCO incurred a loss of \$243 million before tax, or \$152 after tax, on early retirement of long-term debt during 2000.

No long-term debt was denominated in a foreign currency at December 31, 2000. Approximately \$3 million of long-term debt was denominated in foreign currencies at December 31, 1999.

No material amounts of long-term debt are collateralized by ARCO assets.

Note 17 Interest

Interest for the years ended December 31 comprised the following:

<TABLE>
 <CAPTION>
 Millions

| | 2000 | 1999 | 1998 |
|--|------|------|------|
|--|------|------|------|

<S>

| | | | |
|----------------------|-------------|--------------|--------------|
| Long-term debt | \$ 403 | \$ 413 | \$ 322 |
| Short-term debt | 86 | 113 | 158 |
| Other(a) | 56 | 38 | (115) |
| | ----- | ----- | ----- |
| Capitalized interest | 545 (66) | 564 (166) | 365 (106) |

| | | | |
|-----------------------------|--------|--------|--------|
| Total interest expense | \$ 479 | \$ 398 | \$ 259 |
| Total interest paid in cash | \$ 513 | \$ 377 | \$ 248 |
| Interest income(b) | \$ 480 | \$ 126 | \$ 119 |

</TABLE>

- (a) Includes interest to BP of \$53 in 2000 and a credit of \$153 for interest on a tax refund in 1998.
(b) Includes \$305 of interest income from BP.

Note 18 Financial Instruments and Fair Value

ARCO does not hold or issue financial instruments for trading purposes.

Prior to the acquisition of ARCO by BP, ARCO entered into various types of foreign currency forward, option and swap contracts. Foreign currency forward contracts were used to minimize foreign exchange exposures associated with U.S. dollar-denominated debt issued by a foreign subsidiary, anticipated foreign currency commitments and anticipated future cash flows related to overseas operations.

Gains and losses on foreign currency forward contracts covering anticipatory cash flows were recognized currently as other income or expense. Gains and losses on foreign currency swaps associated with intercompany debt were recognized currently in income and offset foreign exchange gains and losses on the underlying intercompany loans. Gains and losses on other foreign currency contracts were generally deferred and offset the transactions being hedged.

Prior to the acquisition of ARCO by BP, ARCO also used various hedging arrangements to manage the exposure to price risk for future natural gas and crude oil transactions. Gains and losses resulting from those transactions were deferred and included in other assets or accrued liabilities until realized in sales and other operating revenues as the physical production required by the contracts was delivered.

55

<PAGE>

Notes to Consolidated Financial Statements

At December 31, the carrying value and estimated fair value of ARCO's financial instruments are shown as assets (liabilities) in the table below:

<TABLE>
<CAPTION>

| Millions | 2000 | | 1999 | |
|--|----------------|------------|----------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| <S> | <C> | <C> | <C> | <C> |
| Non-derivatives: | | | | |
| Short-term investments | \$ 202 | \$ 202 | \$ 264 | \$ 264 |
| Equity method investments | 1,484 | 1,434 | 1,508 | 1,472 |
| Other investments and long-term receivables | 1,660 | 1,660 | 1,660 | 1,660 |
| Notes payable | -- | -- | (1,672) | (1,672) |
| Long-term debt, including current maturities | (4,394) | (4,654) | (5,709) | (5,920) |
| Derivatives: | | | | |
| Foreign currency forwards | \$ -- | \$ -- | \$ 2 | \$ 2 |
| Oil and gas options and swaps | -- | -- | (20) | (19) |
| Oil and gas futures | -- | -- | 21 | 18 |
| Commodity futures | -- | -- | 2 | 1 |

Page 64

Commodity options
</TABLE>

Short-term investments are carried at fair value. The fair value of notes payable approximates carrying value due to its short-term maturities. Equity method investments and other investments and long-term receivables were valued at quoted market prices if available. For unquoted investment securities, the reported fair value was estimated on the basis of financial and other information. The fair value of ARCO's long-term debt was estimated based on the quoted market prices for the same or similar issues or on the current rates offered to ARCO for debt of the same remaining maturities. The fair value of foreign currency contracts and interest rate swaps represented the amount to be exchanged if the existing contracts had been settled at year end and was estimated based on market quotes.

ARCO is exposed to credit risk in the event of nonperformance by the counterparties. ARCO does not generally require collateral or other security to support these financial instruments. The counterparties to these instruments are major institutions deemed creditworthy; ARCO does not anticipate nonperformance by the counterparties.

[LOGO OF ARCO]

Note 19 Other Commitments and Contingencies

ARCO has commitments, including those related to the acquisition, construction and development of facilities, all made in the normal course of business.

ARCO has also guaranteed all of LUKARCO's obligations associated with the Caspian Pipeline project, which amount to 25% of all funding requirements for this project. The current estimates of total project funding requirements are between \$2.4 to \$2.6 billion.

Following the March 1989 Exxon Valdez oil spill, numerous federal, state and private plaintiff lawsuits were brought against Exxon (now ExxonMobil), Alyeska Pipeline Service Company (Alyeska) and Alyeska's owner companies, including ARCO Transportation Alaska, Inc., owned by ARCO until the FTC-mandated sale to Phillips Petroleum in April 2000. While all of the federal, state and private plaintiff lawsuits have been settled, certain issues relating to liability for the spill remain unresolved between Exxon and Alyeska (including its owner companies).

Lawsuits, including purported class actions and actions by governmental entities, are pending or threatened against ARCO and others seeking damages, abatement of housing units, and compensation for medical problems arising out of the presence of lead-based paint in certain housing units. ARCO is unable to predict the scope or amount of any such liability.

The State of Montana, along with the United States and the Salish and Kootenai Tribes, have been seeking recovery from ARCO for alleged injuries to natural resources resulting from mining and mineral processing businesses formerly operated by Anaconda. In 1998, ARCO entered into two consent decrees, which were approved by the court in 1999,

56

<PAGE>

Notes to Consolidated Financial Statements

settling all of the natural resources damage claims of the United States and the tribes and the bulk of such claims of the State of Montana. Remaining for disposition are the State's claims for \$206 million of restoration damages at three sites.

ARCO is subject to other loss contingencies pursuant to federal, state and local environmental laws and regulations that require ARCO to do some or all of the following:

- . Remove or mitigate the effects on the environment at various sites from the disposal or release of certain substances;
- . Perform restoration work at such sites; and

Page 65

.Pay damages for loss of use and non-use values.

The federal agencies involved with the sites include the Department of the Interior, Department of Justice and Environmental Protection Agency. Environmental liabilities include personal injury claims allegedly caused by exposure to toxic materials manufactured or used by ARCO.

ARCO is currently involved in assessments and cleanups under these laws at federal- and state-managed sites as well as other clean-up sites including service stations, refineries, terminals, third-party landfills, former nuclear processing facilities, sites associated with discontinued operations and sites previously owned by ARCO or predecessors. This comprises 148 sites for which ARCO has been named a potentially responsible party (PRP), along with other sites for which no claims have been asserted. The number of PRP sites in and of itself is not a relevant measure of liability because the nature and extent of environmental concerns varies by site and ARCO's responsibility varies from sole responsibility to very little responsibility.

ARCO may in the future be involved in additional assessments and cleanups. Future costs depend on unknown factors such as:

- .Nature and extent of contamination;
- .Timing, extent and method of remedial action;
- .ARCO's proportional share of costs; and
- .Financial condition of other responsible parties.

The environmental remediation accrual is updated annually, at a minimum, and at December 31, 2000 was \$1,098 million (total of short and long-term components). During 2000, management of the Company assessed the estimated future costs to remediate all of the Company's environmental sites and concluded that its best estimate of the cost to remediate such sites was greater than previously recorded. As a result the environmental reserve was increased by \$521 million during 2000, of which \$274 million was recognized during the fourth quarter. As these costs become more clearly defined, they may require future charges against earnings.

Approximately 85% of the reserve related to sites associated with ARCO's discontinued operations, primarily mining activities in the states of Montana, Utah and New Mexico. Another significant component related to currently and formerly owned chemical, nuclear processing, and refining and marketing facilities, and other sites which received wastes from these facilities. One site represented 13% of the total accrual. No other site represented more than 8% of the total accrual. Substantially all amounts accrued are expected to be paid out over the next six years.

Claims for recovery of remediation costs already incurred and to be incurred in the future have been filed against various third parties. Many of these claims have been resolved. ARCO has neither recorded any asset nor reduced any liability in connection with unresolved claims.

Although any ultimate liability arising from any of the matters described herein could result in significant expenses or judgments that, if aggregated and assumed to occur within a single fiscal year, would be material to ARCO's results of operations, the likelihood of such occurrence is considered remote. On the basis of management's best assessment of the ultimate amount and timing of these events, such expenses or judgments are not expected to have a material adverse effect on ARCO's consolidated financial statements.

Notes to Consolidated Financial Statements

The operations and consolidated financial position of ARCO continue to be affected by domestic and foreign political developments as well as legislation, regulations and litigation pertaining to restrictions on production, imports and exports, tax increases, environmental regulations, cancellation of contract rights and expropriation of property. Both the likelihood of such occurrences and their overall effect on ARCO vary greatly and are not predictable.

These uncertainties are part of a number of items that ARCO has taken and

2001-03 AR Annual Rpt (10K) for 2000.txt
will continue to take into account in periodically establishing reserves.

Note 20 Taxes

See Note 3 of Notes to Consolidated Financial Statements for discussion of tax sharing agreement with BP.

The income tax provision for the years ended December 31 comprised the following:

| <TABLE> <CAPTION> Millions | | | |
|---|---------|--------|----------|
| | 2000 | 1999 | 1998 |
| ----- | | | |
| <S> | <C> | <C> | <C> |
| Federal: | | | |
| Current | \$1,999 | \$ 26 | \$ (189) |
| Deferred | (846) | 322 | (7) |
| | 1,153 | 348 | (196) |
| Foreign: | | | |
| Current | 363 | 227 | 91 |
| Deferred | (66) | (68) | (486) |
| | 297 | 159 | (395) |
| State: | | | |
| Current | 244 | 16 | (14) |
| Deferred | (65) | 10 | (46) |
| | 179 | 26 | (60) |
| Provision (benefit) for taxes on income | \$1,629 | \$ 533 | \$ (651) |
| Total income taxes paid in cash(a) | \$2,362 | \$ 676 | \$1,417 |
| ----- | | | |

</TABLE>

(a) Includes cash taxes paid relating to the sale of discontinued operations.

A deferred tax benefit of \$55 million was recorded in 2000 versus a deferred tax expense of \$189 million in 1999 and a \$426 million deferred tax benefit in 1998 related to unrealized investment gains and losses included in accumulated other comprehensive income.

Major components of the net deferred tax liability at December 31 were as follows:

| <TABLE> <CAPTION> Millions | | |
|---|-----------|-----------|
| | 2000 | 1999 |
| ----- | | |
| <S> | <C> | <C> |
| Depreciation, depletion and amortization | \$(4,113) | \$(4,573) |
| Other | (713) | (510) |
| Total deferred tax liabilities | (4,826) | (5,083) |
| ===== | | |
| Dismantlement and environmental | 513 | 619 |
| Postretirement benefits | 265 | 285 |
| Foreign excess tax basis/loss carryforwards | 72 | 92 |
| Other | 600 | 443 |
| Total deferred tax assets | 1,450 | 1,439 |
| ----- | | |

valuation allowance

Net deferred income tax liability

 \$(3,376) \$(3,644)
 =====

</TABLE>

ARCO has federal loss carryforwards of \$28 million which begin expiring in 2001. ARCO has foreign loss carryforwards of \$46 million, which begin expiring in 2001.

58

<PAGE>

Notes to Consolidated Financial Statements

Taxes other than income taxes for the years ended December 31 comprised the following:

<TABLE>

<CAPTION>

| Millions | 2000 | 1999 | 1998 |
|----------------------|-------|-------|-------|
| <S> | <C> | <C> | <C> |
| Property | \$108 | \$135 | \$143 |
| Production/severance | 245 | 237 | 227 |
| Other | 118 | 103 | 136 |
| Total | \$471 | \$475 | \$506 |

</TABLE>

The domestic and foreign components of income from continuing operations before income taxes and minority interest, and a reconciliation of income tax expense with tax at the effective federal statutory rate for the years ended December 31 were as follows:

<TABLE>

<CAPTION>

| 1998 | | 2000 | | 1999 | | |
|------------------------------------|---------|---------|-----------------|---------|-----------------|-----------|
| Millions | | Amount | % Pretax Income | Amount | % Pretax Income | Amount |
| % Pretax Income | | | | | | |
| <S> | | <C> | <C> | <C> | <C> | <C> |
| <C> | | | | | | |
| Income (loss) before income taxes: | | | | | | |
| Domestic | | \$4,094 | 85.3 | \$1,620 | 84.6 | \$ 96 |
| Foreign | 7.5 | 704 | 14.7 | 296 | 15.4 | (1,378) |
| | (107.5) | | | | | |
| Total | | \$4,798 | 100.0 | \$1,916 | 100.0 | \$(1,282) |
| | 100.0 | | | | | |
| Tax at 35% | | \$1,679 | 35.0 | \$ 671 | 35.0 | \$ (449) |

2001-03 AR Annual Rpt (10K) for 2000.txt

| | | | | | |
|-------------------------|---------|-------|--------|-------|----------|
| (35.0) | | | | | |
| Increase (reduction) in | | | | | |
| taxes resulting from: | | | | | |
| Taxes on foreign income | | | | | |
| in excess of statutory | | | | | |
| rate | 80 | 1.7 | 12 | 0.6 | 32 |
| 2.5 | | | | | |
| Affiliate stock | | | | | |
| transactions | (55) | (1.1) | (30) | (1.6) | (51) |
| (4.0) | | | | | |
| State income taxes (net | | | | | |
| of federal effect) | 116 | 2.4 | 17 | 0.9 | (39) |
| (3.0) | | | | | |
| Tax credits | (109) | (2.3) | (143) | (7.4) | (123) |
| (9.6) | | | | | |
| Sale of Alaskan | | | | | |
| operations | (195) | (4.1) | - | - | - |
| - | | | | | |
| Other | 113 | 2.4 | 6 | 0.3 | (21) |
| (1.7) | | | | | |
| <hr/> | | | | | |
| Provision (benefit) for | | | | | |
| taxes on income | \$1,629 | 34.0 | \$ 533 | 27.8 | \$ (651) |
| (50.8) | | | | | |

</TABLE>

Note 21 Employee Benefit Plans

ARCO and its subsidiaries sponsor numerous postretirement benefit plans. Defined benefit pension plans (Pension) provide to substantially all employees pension benefits based on years of service and the employee's compensation, primarily during the last three years of service. Defined postretirement benefit plans (Other) provide health care and life insurance benefits to substantially all employees who retire with ARCO having rendered the required years of service, and to their spouses and eligible dependents. ARCO pays for the cost of a benchmark health maintenance organization with employees responsible for the differential cost, if any, of their selected option. Life insurance benefits are partially paid for by retiree contributions, which vary based upon coverage chosen by the retiree. ARCO and BP have the right to terminate or modify the plans at any time.

59

<PAGE>

Notes to Consolidated Financial Statements

<TABLE>
<CAPTION>

| | 2000 | | 1999 | |
|---------------------------------|-----------|---------|-----------|---------|
| Millions | Pension | Other | Pension | Other |
| <S> | <C> | <C> | <C> | <C> |
| Plan obligations | | | | |
| Benefit obligation at January 1 | \$(2,263) | \$(574) | \$(2,822) | \$(616) |
| Service cost | (36) | (5) | (51) | (7) |
| Interest cost | (147) | (40) | (179) | (41) |
| Actuarial gain (loss) | (151) | (51) | 349 | 45 |
| Benefits paid | 856 | 45 | 429 | 45 |

Page 69

2001-03 AR Annual Rpt (10K) for 2000.txt

| | | | | |
|-----------------------------------|-----------|---------|-----------|---------|
| Special termination costs | (248) | (3) | - | - |
| Curtailment | 93 | 38 | - | - |
| Transfer | 59 | - | - | - |
| Amendment | (37) | - | - | - |
| Divestiture | - | - | 11 | - |
| Benefit obligation at December 31 | \$(1,874) | \$(590) | \$(2,263) | \$(574) |

<CAPTION>

| Millions | 2000 | | 1999 | |
|---|----------|---------|---------|---------|
| | Pension | Other | Pension | Other |
| <S> | <C> | <C> | <C> | <C> |
| Plan assets | | | | |
| Fair value of assets at January 1 | \$ 2,903 | \$ - | \$2,886 | \$ - |
| Actual return on assets | (102) | - | 392 | - |
| Company contributions | 266 | - | 64 | - |
| Benefits paid | (856) | - | (429) | - |
| Acquisition | - | - | - | - |
| Transfer/Divestiture | (57) | - | (10) | - |
| Fair value of assets at December 31 | \$ 2,154 | \$ - | \$2,903 | \$ - |
| Funded status | | | | |
| Assets greater (less) than obligations | \$ 280 | \$(590) | \$ 640 | \$(574) |
| Unrecognized actuarial (gain) loss | 290 | 60 | (164) | 8 |
| Unrecognized prior service cost (benefit) | 79 | (175) | 125 | (191) |
| Unrecognized transition obligation | (128) | - | (173) | - |
| Total recognized | \$ 521 | \$(705) | \$ 428 | \$(757) |
| Balance sheet recognition | | | | |
| Prepaid benefits | \$ 556 | \$ - | \$ 564 | \$ - |
| Accrued liabilities | (38) | (705) | (205) | (757) |
| Intangible asset | 1 | - | 18 | - |
| Accumulated other comprehensive income | 2 | - | 51 | - |
| Total recognized | \$ 521 | \$(705) | \$ 428 | \$(757) |

</TABLE>

The projected benefit obligation, accumulated benefit obligation (ABO), and fair value of plan assets for pension plans with ABO in excess of plan assets were \$33, \$23 and \$0, respectively, at December 31, 2000, and \$252, \$200 and \$1, respectively, at December 31, 1999.

<TABLE>

<CAPTION>

| Percent | 2000 | | 1999 | |
|--------------------------------|---------|-------|---------|-------|
| | Pension | Other | Pension | Other |
| <S> | <C> | <C> | <C> | <C> |
| Assumptions | | | | |
| Discount rate | 7.5 | 7.5 | 7.75 | 7.75 |
| Expected return on plan assets | 10.0 | n/a | 10.5 | n/a |
| Rate of salary progression | 4.0 | 4.0 | 4.0 | 4.0 |

</TABLE>

Notes to Consolidated Financial Statements

For measurement purposes, a 7% annual rate of increase in the per capita cost of health care benefits was assumed for 1997 to 2000, 15% for 2001, and 10% for 2002, after which the rate was assumed to decrease to 5% and remain at that level thereafter.

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

<TABLE>
<CAPTION>

| Millions | 2000 | |
|------------------------------------|----------|----------|
| | Increase | Decrease |
| <S> | <C> | <C> |
| Total of service and interest cost | \$ 4 | \$ 3 |
| Postretirement benefit obligation | \$ 44 | \$ 37 |

<TABLE>
<CAPTION>
Million

| | 2000 | 1999 | 1998 |
|--|--------|---------|---------|
| <S> | <C> | <C> | <C> |
| Components of net benefit cost | | | |
| Pension benefits: | | | |
| Service cost | \$ 36 | \$ 51 | \$ 53 |
| Interest cost | 147 | 179 | 173 |
| Expected return on plan assets | (268) | (289) | (281) |
| Amortization of transition asset | (25) | (27) | (27) |
| Amortization of prior service cost | 8 | 8 | 7 |
| Recognized actuarial (gain) loss | 7 | 9 | 10 |
| Curtailment | (14) | - | - |
| Settlement | 73 | - | - |
| Special termination costs | 211 | - | - |
| Net benefit (income) cost | \$ 175 | \$ (69) | \$ (65) |
| Other postretirement benefits: | | | |
| Service cost | \$ 5 | \$ 7 | \$ 7 |
| Interest cost | 40 | 41 | 39 |
| Amortization of prior service cost (benefit) | (15) | (15) | (15) |
| Curtailment | (28) | - | - |
| Recognized actuarial (gain) loss | - | 1 | - |
| Net benefit (income) cost | \$ 2 | \$ 34 | \$ 31 |

</TABLE>

Included in pension obligations are liabilities related to non-qualified pension plans that provide retirement benefits in excess of current Internal Revenue Service maximums. The company also has deferred compensation plans that permit executives, outside directors and key employees to defer a portion of their compensation (including bonuses). Amounts deferred accrue interest at a defined rate and are not included as pension obligations. The liability for deferred compensation and interest thereon was \$638 million and \$343 million at December 31, 2000 and 1999, respectively, and is included in "other deferred liabilities and credits" on the balance sheet. The liabilities for non-qualified pension plans and deferred compensation are unfunded based on definitions of generally accepted accounting standards. However, to assist in funding these liabilities, the company has invested in corporate-owned life

2001-03 AR Annual Rpt (10K) for 2000.txt
 insurance policies. The cash surrender value of the policies supporting these liabilities was \$630 million and \$572 million at December 31, 2000 and 1999, respectively, and is included in "deferred charges and other assets" on the balance sheet.

[LOGO OF ARCO]

Note 22 Lease Commitments

Capital lease obligations are recorded at the present value of future rental payments. The related assets are amortized on a straight-line basis.

61

<PAGE>

Notes to Consolidated Financial Statements

At December 31, 2000, future minimum rental payments due under leases were as follows:

<TABLE>
 <CAPTION>

| Millions | Capital Leases | Operating Leases |
|--|-------------------|---------------------|
| <S> | <C> | <C> |
| 2001 | 3 | 177 |
| 2002 | 3 | 153 |
| 2003 | 3 | 142 |
| 2004 | 3 | 76 |
| 2005 | 3 | 59 |
| Later years | 54 | 303 |
| Total minimum lease payments | 69 | \$ 910 |
| Imputed interest (rates ranging from 8% to 12%) | 45 | |
| Present value of minimum lease payments included in long-term debt | \$ 24 | |

</TABLE>

Operating lease net rental expense for the years ended December 31 was as follows:

<TABLE>
 <CAPTION>

| Millions | 2000 | 1999 | 1998 |
|------------------------|--------|--------|--------|
| <S> | <C> | <C> | <C> |
| Minimum rentals | \$ 159 | \$ 190 | \$ 189 |
| Contingent rentals | - | - | 2 |
| Sublease rental income | (23) | (22) | (20) |
| Net rental expense | \$ 136 | \$ 168 | \$ 171 |

</TABLE>

No restrictions on dividends or on additional debt or lease financing exist under ARCO's lease commitments. Under certain conditions, options exist to purchase certain leased properties.

Note 23 Stock Options

Options to purchase shares of ARCO's common stock have been granted to executives, outside directors and key employees. The exercise price of each option is equal to the fair market value of common stock at the date of grant. These options become exercisable in varying installments and expire 10 years after the date of grant. Options granted vest equally over three years. Effective upon consummation of the merger, all options to purchase ARCO common stock were converted into options to purchase BP ADSs, pursuant to the merger agreement. Transactions during 2000, 1999 and 1998 were as follows:

<TABLE>
<CAPTION>

| | | Weighted Average Exercise Price |
|-----------------------------|--------------|------------------------------------|
| <S> | <C> | <C> |
| Balance, January 1, 1998 | 8,007,146 | \$ 56.45 |
| Granted | 1,862,840 | 73.73 |
| Exercised | (420,012) | 49.85 |
| Cancelled | (37,647) | 69.52 |
| Balance, December 31, 1998 | 9,412,327 | \$ 60.12 |
| Granted | 1,234,727 | 57.67 |
| Exercised | (851,288) | 55.32 |
| Cancelled | (42,111) | 68.12 |
| Balance, December 31, 1999 | 9,753,655 | \$ 60.19 |
| Granted | 1,759,148 | 68.81 |
| Exercised | (329,245) | 58.50 |
| Cancelled | (10,079) | 64.70 |
| Converted to BP ADS options | (11,173,479) | 61.59 |
| Balance, December 31, 2000 | - | \$ - |

</TABLE>

62

<PAGE>

Notes to Consolidated Financial Statements

A summary of ARCO's fixed stock options as of December 31, 2000, 1999 and 1998, was as follows:

<TABLE>
<CAPTION>

| | 2000 | 1999 | 1998 |
|--|---------|-----------|-----------|
| <S> | <C> | <C> | <C> |
| Shares available for option | - | 9,618,570 | 8,523,492 |
| Options exercisable | - | 7,308,855 | 6,803,228 |
| weighted average exercise price of options exercisable | - | \$ 58.74 | \$ 56.01 |
| weighted average fair value of options granted during the year | \$24.41 | \$ 15.46 | \$ 18.96 |
| Used to calculate fair value: | | | |
| Risk-free interest rate | 6.42% | 5.02% | 5.57% |
| Expected life (years) | 10 | 10 | 10 |
| Expected volatility | 34.21% | 30.29% | 23.06% |
| Expected dividends | 4.14% | 5.02% | 3.85% |

At December 31, 2000, there were no outstanding options to purchase ARCO common stock.

ARCO applies APB No. 25 in accounting for its fixed stock options. Accordingly, no compensation cost has been recognized for options granted. The following table reflects pro forma net income and earnings per share had the company elected to adopt the fair value method under SFAS No. 123:

<CAPTION>

| | 2000 | 1999 | 1998 |
|-------------------------------|---------|----------|---------|
| <S> | <C> | <C> | <C> |
| Net income: | | | |
| As reported | \$3,026 | \$ 1,422 | \$ 452 |
| Pro forma | \$2,989 | \$ 1,407 | \$ 440 |
| Earnings per share (diluted): | | | |
| As reported | - | \$ 4.33 | \$ 1.40 |
| Pro forma | - | \$ 4.29 | \$ 1.36 |

</TABLE>

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options would be amortized to expense over the vesting period, and additional options may be granted in future years.

ARCO awards contingent restricted stock to executives and key employees. Contingent restricted stock may be converted to performance-based restricted stock in various multiples depending on attainment of certain performance criteria over a specified evaluation period. Restricted stock ultimately issued is subject to a two-year restriction on transfer.

There were no new grants of contingent restricted stock in 2000. During 1999, 236,412 shares of contingent restricted stock were awarded at a weighted average price of \$56.81, net of forfeitures and retirements, and with varying evaluation periods. During 2000, 1999 and 1998, 107,718 shares, 28,696 shares and 135,180 shares of performance-based restricted stock were issued at weighted average prices of \$68.81, \$56.81 and \$73.93, respectively. As of the date of the merger with BP, restrictions on all outstanding contingent and performance-based restricted shares were removed. The removal of these restrictions resulted in restricted stock expense of \$18 million in 2000. In 1999 and 1998, \$21 million and \$10 million was recognized as expense for performance-based restricted stock, respectively.

63

<PAGE>

Notes to Consolidated Financial Statements

Holders of options granted prior to 1997 accrue dividend share credits (DSCs) on all shares under option. The amount of DSCs accrued is determined based upon the quarterly dividend rate and fair market value of ARCO common stock as of each quarterly record date. Upon exercise of options, holders receive additional shares of common stock equal to DSCs accumulated. A summary of ARCO's DSC activity was as follows:

<TABLE>

<CAPTION>

| | Shares |
|----------------------------|-----------|
| <S> | <C> |
| Balance, December 31, 1997 | 1,642,565 |
| Accrued | 316,486 |
| Paid out | (166,512) |
| Cancelled | (83) |
| Balance, December 31, 1998 | 1,792,456 |
| Accrued | 265,807 |
| Paid out | (323,845) |

Page 74

2001-03 AR Annual Rpt (10K) for 2000.txt

| | |
|----------------------------|-------------|
| Balance, December 31, 1999 | 1,734,418 |
| Accrued | 71,792 |
| Paid out | (148,304) |
| Conversion to BP ADSS | (1,657,906) |

| | |
|----------------------------|----|
| Balance, December 31, 2000 | -- |
|----------------------------|----|

</TABLE>

During 2000, 1999 and 1998, \$5 million, \$34 million and \$11 million was recognized as expense for DSCs, respectively. An additional \$80 million of DSC expense was recognized in 2000 due to benefit acceleration upon change of control of the company.

Note 24 Stockholders' Equity

Detail of capital stock as of December 31 was as follows:

<TABLE>

<CAPTION>

| | 2000 | 1999 |
|--|-------------|-------------|
| <S> | <C> | <C> |
| \$3.00 Cumulative convertible preference stock, par \$1: | | |
| Shares authorized | 78,089 | 78,089 |
| Shares issued and outstanding | 35,437 | 40,869 |
| Aggregate value in liquidation - (thousands) | \$ 2,835 | \$ 3,270 |
| \$2.80 Cumulative convertible preference stock, par \$1: | | |
| Shares authorized | 833,776 | 833,776 |
| Shares issued and outstanding | 402,665 | 493,126 |
| Aggregate value in liquidation - (thousands) | \$ 28,187 | \$ 34,519 |
| Common stock, par \$2.50: | | |
| Shares authorized | 600,000,000 | 600,000,000 |
| Shares issued | 327,436,320 | 326,713,278 |
| Shares outstanding | 324,711,290 | 323,048,817 |
| Shares held in treasury | 2,725,030 | 3,664,461 |

</TABLE>

Changes in preference stocks were due to conversions. The \$3.00 cumulative convertible preference stock is convertible into 22.304 shares of BP ADSS. The \$2.80 cumulative convertible preference stock is convertible into 7.872 shares of BP ADSS. Common stock of ARCO, all of which is held indirectly by BP, is subordinate to the preference stocks for dividends and assets. The \$3.00 and \$2.80 preference stocks may be redeemed at the option of ARCO for \$82 and \$70 per share, respectively.

<PAGE>

Note 25 Supplemental Cash Flow Information

The following is supplemental cash flow information for the years ended December 31:

| <TABLE> <CAPTION> Millions | | 2000 | 1999 | 1998 |
|--|--|------------|-----------|-----------|
| <S> | | <C> | <C> | <C> |
| Short-term investments: | | | | |
| Gross sales and maturities | | \$103 | \$ 168 | \$ 226 |
| Gross purchases | | (35) | (190) | (259) |
| Net cash provided (used) | | \$68 | \$ (22) | \$ (33) |
| Notes payable: | | | | |
| Gross proceeds | | \$ 3,697 | \$ 12,640 | \$ 14,978 |
| Gross repayments | | (5,371) | (13,335) | (14,066) |
| Net cash provided (used) | | \$ (1,674) | \$ (695) | \$ 912 |
| Gross noncash provisions charged to income | | \$ 1,153 | \$ 247 | \$ 652 |
| Cash payments of previously accrued items | | (535) | (669) | (468) |
| Noncash provisions greater (less) than cash payments | | \$ 618 | \$ (422) | \$ 184 |
| Changes in working capital -increase (decrease) to cash: | | | | |
| Accounts receivable | | \$ 93 | \$ (117) | \$ 19 |
| Inventories | | 63 | 36 | 8 |
| Accounts payable | | 351 | (146) | (60) |
| Other working capital | | 137 | (427) | 340 |
| | | \$ 644 | \$ (654) | \$ 307 |

</TABLE>

In conjunction with the acquisition of UTP, liabilities were assumed as follows:

| <TABLE> <CAPTION> Millions | |
|----------------------------------|--------------|
| <S> | |
| Fair value of assets acquired | <C> \$ 3,745 |
| Cash paid | (2,707) |
| Liabilities assumed | \$ 1,038 |

</TABLE>

Excluded from the Consolidated Statement of Cash Flows for the year ended December 31, 1998 was the issuance of 2,725,030 shares of ARCO common stock to a consolidated subsidiary in exchange for certain property, plant and equipment owned by the subsidiary. The transaction was recorded at fair market value.

In October 1998, through a three-way exchange involving ARCO, Vastar and

Mobil, ARCO disposed of its California heavy crude properties. In the transaction, an ARCO subsidiary holding the California properties traded the California properties for Mobil's interests in producing fields and exploration acreage in the Gulf of Mexico. Vastar then purchased the ARCO subsidiary holding the Gulf of Mexico properties for \$437 million, including the assumption of \$300 million of debt which was repaid in first quarter 1999.

[LOGO OF ARCO]

Note 26 Foreign Currency Transactions

Foreign currency transactions resulted in net losses of \$12 million, \$1 million and \$2 million in 2000, 1999 and 1998, respectively.

65

<PAGE>

Notes to Consolidated Financial Statements

Note 27 Earnings Per Share

Earnings per share for 2000 has been omitted from ARCO's financial statements because ARCO had no publicly held common stock after ARCO's acquisition by BP on April 18, 2000.

<TABLE>

<CAPTION>

| (Millions, except per share amounts) | 1999 | | | 1998 | | |
|---|---------|--------|-----------|----------|--------|-----------|
| | Income | Shares | Per Share | Income | Shares | Per Share |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Income (loss) from continuing operations | \$1,345 | | | \$ (655) | | |
| Less: Preference stock dividends | (2) | | | (2) | | |
| Income (loss) from continuing operations available to common shareholders | 1,343 | 322.3 | \$4.17 | (657) | 321.0 | \$(2.05) |
| Discontinued operations | 77 | 322.3 | 0.24 | 1,107 | 321.0 | 3.45 |
| Extraordinary item - loss on extinguishment of debt | | | | | | |
| Total income available to common shareholders - basic EPS | \$1,420 | 322.3 | \$4.41 | \$ 450 | 321.0 | \$ 1.40 |
| Income (loss) from continuing operations available to common shareholders | \$1,343 | 322.3 | | \$ (657) | 321.0 | |
| Contingently issuable shares (primarily options) | | 3.3 | | | - | |
| \$3.00 Convertible preference stock | | 0.6 | | | - | |
| \$2.80 Convertible preference stock | 2 | 2.6 | | | - | |
| Income (loss) from continuing operations available to common shareholders | 1,345 | 328.8 | \$4.09 | (657) | 321.0 | \$(2.05) |

Page 77

| | | | | | |
|-------------------------|----------|------|-------|-------|------|
| Discontinued operations | 77 328.8 | 0.24 | 1,107 | 321.0 | 3.45 |
|-------------------------|----------|------|-------|-------|------|

Extraordinary item - loss on
extinguishment of debt

| | | | | | |
|--|---------------|--------|--------|-------|---------|
| Total income available to common shareholders and assumed conversions - diluted EPS(a) | \$1,422 328.8 | \$4.33 | \$ 450 | 321.0 | \$ 1.40 |
|--|---------------|--------|--------|-------|---------|

</TABLE>

(a) No dilution assumed for 1998 due to antidilutive effect on loss from
continuing operations.

Note 28 Comprehensive Income

Comprehensive income comprises net income plus all other changes in equity
from nonowner sources.

The related tax effects allocated to each component of other comprehensive
income at December 31 were as follows:

<TABLE>

<CAPTION>

| Millions | Unrealized Gain (Loss) on Securities | Foreign Currency Translation | Minimum Pension Liability |
|-----------------------|---|------------------------------------|---------------------------------|
| <S> | <C> | <C> | <C> |
| 2000 | | | |
| Pre-tax amount | \$ (143) | \$ (256) | \$ 49 |
| Tax (expense) benefit | 55 | 98 | (19) |
| Net-of-tax amount | \$ (88) | \$ (158) | \$ 30 |
| 1999 | | | |
| Pre-tax amount | \$ 492 | \$ 313 | \$ 27 |
| Tax (expense) benefit | (189) | (121) | (11) |
| Net-of-tax amount | \$ 303 | \$ 192 | \$ 16 |
| 1998 | | | |
| Pre-tax amount | \$ (1,107) | \$ (30) | \$ 11 |
| Tax (expense) benefit | 426 | 12 | (4) |
| Net-of-tax amount | \$ (681) | \$ (18) | \$ 7 |

</TABLE>

66

<PAGE>

Notes to Consolidated Financial Statements

Accumulated nonowner changes in equity (accumulated other comprehensive
income) at December 31 were as follows:

<TABLE>

Page 78

<CAPTION>

Millions

2000 1999

<S>

| | | |
|---|--------|--------|
| | <C> | <C> |
| Net unrealized gain (loss) on investments | \$ 140 | \$ 228 |
| Foreign currency translation adjustment | (188) | (30) |
| Minimum pension liability | (1) | (31) |

| | | |
|---|---------|--------|
| Accumulated other comprehensive income (loss) | \$ (49) | \$ 167 |
|---|---------|--------|

</TABLE>

Unrealized gains (losses) on securities related primarily to changes in the fair value of ARCO's investment in LUKOIL common stock, which had a fair value of \$494 million, \$714 million and \$225 million at December 31, 2000, 1999 and 1998, respectively, versus a book value was \$324 million, \$342 million and \$342 million at December 31, 2000, 1999 and 1998, respectively.

[LOGO OF ARCO]

Note 29 Research and Development

Expenditures for research and development totaled \$9 million, \$28 million and \$45 million for the years ended December 31, 2000, 1999 and 1998, respectively.

[LOGO OF ARCO]

Note 30 Unaudited Quarterly Results

<TABLE>

<CAPTION>

Millions, except per share amounts

2000

1999

<S>

Sales and other operating revenues

Quarter ended:

| | | |
|--------------|----------|----------|
| March 31 | \$ 3,993 | \$ 2,415 |
| June 30 | 4,300 | 3,047 |
| September 30 | 4,524 | 3,423 |
| December 31 | 4,683 | 3,616 |

Total

| | |
|-----------|-----------|
| \$ 17,500 | \$ 12,501 |
|-----------|-----------|

Income (loss) from continuing

operations before income taxes, minority interest and extraordinary item

Quarter ended:

| | | |
|--------------|-------------|--------|
| March 31 | \$ 902 | \$ 261 |
| June 30 | 2,744(a)(b) | 524 |
| September 30 | 645 | 430 |
| December 31 | 507 | 701 |

Total

| | |
|----------|----------|
| \$ 4,798 | \$ 1,916 |
|----------|----------|

Net income (loss)

Quarter ended:

| | | |
|--------------|-------------|--------|
| March 31 | \$ 617 | \$ 165 |
| June 30 | 1,855(a)(b) | 313 |
| September 30 | 367 | 372 |
| December 31 | 187 | 572 |

Total

| | |
|----------|----------|
| \$ 3,026 | \$ 1,422 |
|----------|----------|

Earned (loss) per share

2001-03 AR Annual Rpt (10K) for 2000.txt

Quarter ended:

| | | |
|--------------|---------|---------|
| March 31 | \$ 1.87 | \$ 0.51 |
| June 30 | \$ - | \$ 0.95 |
| September 30 | \$ - | \$ 1.13 |
| December 31 | \$ - | \$ 1.74 |

</TABLE>

(a) Includes gain on sale of Alaskan operations of \$2,596 (\$1,815 after tax). Additional smaller amounts were recorded in the third and fourth quarters. See Note 4 of Notes to Consolidated Financial Statements.

(b) Includes costs related to BP merger of \$639 (\$391 after tax). Additional smaller amounts were recorded in the third and fourth quarters. See Note 11 of Notes to Consolidated Financial Statements.

67

<PAGE>

Notes to Consolidated Financial Statements

Note 31 Unaudited Subsequent Event

On March 28, 2001, ARCO's Board of Directors announced that it had elected to redeem all of the outstanding \$3.00 and \$2.80 Preference Shares on April 27, 2001.

Shareholders of the \$3.00 Cumulative Convertible Preference Stock will receive a total cash payment equal to the market value of 22.304 ADSS, as determined by the average NYSE closing prices for the BP ADSS on the last four business days before the April 27th redemption date. The number 22.304 represents the number of BP ADSS into which each share of the \$3.00 Preference Stock is convertible through April 20, 2001.

Shareholders of the \$2.80 Cumulative Convertible Preference Stock will receive a total cash payment equal to the market value of 7.872 BP ADSS, as determined by the average NYSE closing prices for the BP ADSS on the last four business days before the April 27th redemption date. The number 7.872 represents the number of BP ADSS into which each share of the \$2.80 Preference Stock is convertible through April 20, 2001.

68

<PAGE>

Supplemental Information (Unaudited)

Oil and Gas Producing Activities

The Securities and Exchange Commission (SEC) defines proved oil and gas reserves as those estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

Petroleum reserves are estimated by the Company's engineers. The estimates include reserves in which ARCO holds an economic interest under production-sharing and other types of operating agreements with foreign governments.

Reserves attributable to certain oil and gas discoveries were not considered proved as of December 31, 2000 due to geological, technical or economic uncertainties. Proved reserves do not include amounts that may result from extensions of currently proved areas or from application of enhanced recovery processes not yet determined to be commercial in specific reservoirs. Proved reserves also do not include any reserves attributable to ARCO's 8% interest

Page 80

2001-03 AR Annual Rpt (10K) for 2000.txt
in LUKOIL, a Russian oil company. Natural gas liquids comprise 13% of petroleum liquid proved reserves.

ARCO has no long-term supply contracts to purchase petroleum liquids or natural gas from foreign governments.

The most significant activity during 2000 was the sale of all ARCO's Alaskan oil and gas properties. Changes in proved reserves for the years ended December 31 were as follows:

<TABLE>

<CAPTION>

Petroleum Liquids (million barrels)
Natural Gas (billion cubic feet)

| Consolidated | | Consolidated | | Other | | Other | |
|-------------------------------------|-------|---------------------|------------------------------|-------|-------------|-----------|-------|
| International | Total | U.S. Reserves/1/ | International Reserves/1/ | Total | Reserves/1/ | worldwide | U.S. |
| | | | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Reserves at January 1, 1998 | | | | | | | |
| 3,417 | 8,405 | 2,131 | 520 | 2,651 | 48 | 2,699 | 4,988 |
| | | 67 | 8,472 | | | | |
| Revisions (95) | (62) | 72 (1) | (13) (63) | 59 | 2 | 61 | 33 |
| Improved recovery | | 30 | - | 30 | - | 30 | 6 |
| 5 | 11 | - | 11 | | | | |
| Purchases | | 42 | 279 | 321 | 13 | 334 | 74 |
| 1,333 | 1,407 | 349 | 1,756 | | | | |
| Exchanges | | (119) | - | (119) | - | (119) | 184 |
| - | 184 | - | 184 | | | | |
| Extensions and discoveries | | 88 | 1 | 89 | - | 89 | 367 |
| - | 367 | - | 367 | | | | |
| Production | | (192) | (46) | (238) | (2) | (240) | (429) |
| (325) | (754) | (14) | (768) | | | | |
| Consumed | | - | - | - | - | - | (79) |
| (9) | (88) | - | (88) | | | | |
| Sales | | (9) | (3) | (12) | - | (12) | (27) |
| - | (27) | - | (27) | | | | |
| Reserves at December 31, 1998 | | | | | | | |
| 4,326 | 9,443 | 2,043 | 738 | 2,781 | 61 | 2,842 | 5,117 |
| | | 401 | 9,844 | | | | |
| Revisions (58) | 1 | 119 73 | 46 74 | 165 | 8 | 173 | 59 |
| Improved | | | | | | | |

| | | 2001-03 AR Annual Rpt (10K) for 2000.txt | | | | | |
|----------------------------|-------|--|-------|-------|-----|-------|-------|
| recovery | | 51 | 4 | 55 | - | 55 | 47 |
| - | 47 | - | 47 | | | | |
| Purchases | | 7 | 65 | 72 | 6 | 78 | 137 |
| 3 | 140 | 416 | 556 | | | | |
| Extensions and discoveries | | 121 | - | 121 | - | 121 | 380 |
| - | 380 | - | 380 | | | | |
| Production | | (169) | (56) | (225) | (3) | (228) | (460) |
| (379) | (839) | (29) | (868) | | | | |
| Consumed | | - | - | - | - | - | (80) |
| (11) | (91) | - | (91) | | | | |
| Sales | | (13) | (83) | (96) | - | (96) | (42) |
| - | (42) | - | (42) | | | | |

| | | | | | | | |
|--------------|-------|-------|-------|-------|----|-------|-------|
| Reserves at | | | | | | | |
| December 31, | | | | | | | |
| 1999 | | 2,159 | 714 | 2,873 | 72 | 2,945 | 5,158 |
| 3,881 | 9,039 | 861 | 9,900 | | | | |

| | | | | | | | |
|----------------------------|---------|---------|---------|---------|-----|---------|---------|
| Revisions | | (3) | (3) | (6) | 5 | (1) | (221) |
| (566) | (787) | (80) | (867) | | | | |
| Improved recovery | | 9 | 21 | 30 | - | 30 | 102 |
| - | 102 | - | 102 | | | | |
| Purchases | | - | - | - | - | - | 56 |
| - | 56 | - | 56 | | | | |
| Extensions and discoveries | | 16 | 2 | 18 | - | 18 | 100 |
| 20 | 120 | - | 120 | | | | |
| Production/Consumed | | (82) | (44) | (126) | (2) | (128) | (482) |
| (359) | (841) | (27) | (868) | | | | |
| Sales | | (1,648) | (119) | (1,767) | - | (1,767) | (1,872) |
| (25) | (1,897) | - | (1,897) | | | | |

| | | | | | | | |
|--------------|-------|-----|-------|-------|----|-------|-------|
| Reserves at | | | | | | | |
| December 31, | | | | | | | |
| 2000 | | 451 | 571 | 1,022 | 75 | 1,097 | 2,841 |
| 2,951 | 5,792 | 754 | 6,546 | | | | |

| | | | | | | | |
|----------------------------|-------|-------|-------|-------|----|-------|-------|
| Proved developed reserves: | | | | | | | |
| At January 1, | | | | | | | |
| 1998 | | 1,821 | 204 | 2,025 | 7 | 2,032 | 4,467 |
| 1,643 | 6,110 | 10 | 6,120 | | | | |
| At December 31, | | | | | | | |
| 1998 | | 1,582 | 292 | 1,874 | 36 | 1,910 | 4,480 |
| 2,487 | 6,967 | 343 | 7,310 | | | | |
| At December 31, | | | | | | | |
| 1999 | | 1,562 | 365 | 1,927 | 42 | 1,969 | 4,439 |
| 2,323 | 6,762 | 330 | 7,092 | | | | |
| At December 31, | | | | | | | |
| 2000 | | 311 | 322 | 633 | 43 | 676 | 2,464 |
| 1,981 | 4,445 | 220 | 4,665 | | | | |

</TABLE>

/1/Comprises reserves attributable to ARCO's ownership interest in equity affiliates.

69

<PAGE>

Supplemental Information (Unaudited)

ARCO is a contractor to an affiliate of the Venezuelan government under six risked service contracts. ARCO, either solely or with partners, is responsible for providing capital and technology for the redevelopment of the fields along with operating existing production. In exchange for providing and funding overall operation and field development, ARCO is paid a per-barrel service fee to cover reimbursement of costs plus profit. There are two components to the fees, which include (1) a set fee for contractual baseline production and (2) a fee for incremental production. The fee for incremental production is based on a sliding scale incentive mechanism, which is indexed to a basket of international oil prices and overall field profitability.

Proved reserves and production quantities for Venezuelan operations are recorded based on ARCO's net working interest in each of the contract areas, "net" meaning reserves excluding royalties and interests owned by others per the contractual arrangements. The Venezuelan government maintains full ownership of all hydrocarbons in the fields.

ARCO reports reserve estimates to various federal government agencies and commissions. These estimates may cover various regions of crude oil and natural gas classifications within the United States and may be subject to mandated definitions. There have been no reports since the beginning of the last fiscal year of total ARCO reserve estimates furnished to federal government agencies or commissions which vary from those reported to the SEC.

The aggregate amounts of capitalized costs relating to oil and gas producing activities and the related accumulated depreciation, depletion and amortization as of December 31 were as follows:

<TABLE>

<CAPTION>

| | | 2000 | | 1999 | |
|---------------------|----------|--------------------|----------|--------------------|----------|
| 1998 | | | | | |
| Millions | | U.S. International | | U.S. International | |
| Total | | Total | | Total | |
| <hr/> | | | | | |
| <S> | | <C> | <C> | <C> | <C> |
| <C> | <C> | <C> | | | |
| Proved properties | | \$10,320 | \$9,193 | \$19,513 | \$17,112 |
| \$28,334 | \$16,348 | \$11,345 | \$27,693 | | \$11,222 |
| Unproved properties | | 880 | 986 | 1,866 | 428 |
| 1,581 | 622 | 1,142 | 1,764 | | 1,153 |
| <hr/> | | | | | |
| 29,915 | 16,970 | 12,487 | 11,200 | 21,379 | 17,540 |
| | | | 10,179 | | |
| Accumulated | | | 29,457 | | 12,375 |
| depreciation, | | | | | |
| depletion and | | | | | |
| amortization | | | 5,676 | 9,887 | 10,782 |
| 15,945 | 10,569 | 4,789 | 4,211 | | 5,163 |
| | | | 15,358 | | |

Page 83

2001-03 AR Annual Rpt (10K) for 2000.txt

| | | | | | |
|-----------------------|--------|-------|--------|-------|-------|
| Net capitalized costs | 5,524 | 5,968 | 11,492 | 6,758 | 7,212 |
| 13,970 6,401 7,698 | 14,099 | | | | |

| | | | | | |
|---|-----|-----|-----|---|-----|
| Net capitalized costs of equity affiliates* | - | 424 | 424 | - | 385 |
| 385 - 338 | 338 | | | | |

| | | | | | |
|----------------------------|-----------|---------|----------|----------|----------|
| Total | \$ 5,524 | \$6,392 | \$11,916 | \$ 6,758 | \$ 7,597 |
| \$14,355 \$ 6,401 \$ 8,036 | \$ 14,437 | | | | |

</TABLE>

*ARCO's share

70

<PAGE>

Supplemental Information (Unaudited)

Costs, both capitalized and expensed, incurred in oil and gas producing activities during the three years ended December 31 are set forth below. Property acquisition costs represent costs incurred to purchase or lease oil and gas properties. Exploration costs include costs of geological and geophysical activity and drilling exploratory wells. Development costs include costs of drilling and equipping development wells and construction of production facilities to extract, treat and store oil and gas.

<TABLE>
<CAPTION>

| | 1998 | 2000 | 1999 |
|-----------------------------|--------------------------|--------------------------|--------------------------|
| Millions | | | |
| U.S. International Total | U.S. International Total | U.S. International Total | U.S. International Total |
| Property acquisition costs: | | | |
| Proved properties | \$ 93 | \$ - | \$ 93 |
| 235 \$2,594 \$2,829 | | | \$ 149 \$ 28 \$ 177 |
| Unproved properties | 18 | - | 18 |
| 72 512 584 | | | 14 5 19 |
| Exploration costs | 328 | 60 | 388 |
| 306 376 682 | | | 316 159 475 |
| Development costs | 856 | 501 | 1,357 |
| 1,102 1,200 2,302 | | | 875 832 1,707 |

2001-03 AR Annual Rpt (10K) for 2000.txt

| | | | | | | |
|--------------------|-------|-------|-------|-------|-------|-------|
| Total expenditures | 1,295 | 561 | 1,856 | 1,354 | 1,024 | 2,378 |
| 1,715 | 4,682 | 6,397 | | | | |

| | | | | | | |
|--------------------------------------|-----|-----|----|---|----|----|
| Costs incurred of equity affiliates* | - | 54 | 54 | - | 88 | 88 |
| - | 499 | 499 | | | | |

| | | | | | | |
|---------|---------|---------|---------|---------|---------|---------|
| Total | \$1,295 | \$ 615 | \$1,910 | \$1,354 | \$1,112 | \$2,466 |
| \$1,715 | \$5,181 | \$6,896 | | | | |

*ARCO's share

Results of operations from oil and gas producing activities (including operating overhead) for the three years ended December 31 were as follows:

<CAPTION>

| | | |
|------|------|------|
| | 2000 | 1999 |
| 1998 | | |

| | | | | | | |
|--------------------|-------|---------------|-------|------|---------------|-------|
| Millions | U.S. | International | Total | U.S. | International | Total |
| U.S. International | Total | | | | | |

| | | | | | | | | |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| <C> | <C> | | | | | | | |

| | | | | | | | |
|-----------|---------|---------|---------|---------|---------|---------|--|
| Revenues: | | | | | | | |
| Sales | \$2,807 | \$1,937 | \$4,744 | \$1,711 | \$1,663 | \$3,374 | |
| \$1,535 | \$2,840 | | | | | | |
| Transfers | 749 | - | 749 | 1,379 | - | 1,379 | |
| 1,077 | 1,077 | | | | | | |

| | | | | | | |
|--|-------|-------|-------|-------|-------|-------|
| | 3,556 | 1,937 | 5,493 | 3,090 | 1,663 | 4,753 |
| 2,612 | 3,917 | | | | | |
| Production costs | 364 | 348 | 712 | 463 | 427 | 890 |
| 609 | 941 | | | | | |
| Production taxes | 227 | 77 | 304 | 308 | 16 | 324 |
| 273 | 329 | | | | | |
| Exploration expenses | 259 | 44 | 303 | 239 | 148 | 387 |
| 272 | 629 | | | | | |
| Depreciation, depletion and amortization | 641 | 575 | 1,216 | 763 | 676 | 1,439 |
| 651 | 1,168 | | | | | |
| Impairment | 9 | 277 | 286 | 8 | 6 | 14 |
| 180 | 1,447 | | | | | |
| Other operating expenses (income) | 116 | 123 | 239 | 209 | 37 | 246 |
| 157 | 326 | | | | | |

2001-03 AR Annual Rpt (10K) for 2000.txt

| | | | | | | |
|------------------------------|-------|-----|-------|-------|-----|-------|
| Results before income taxes | 1,940 | 493 | 2,433 | 1,100 | 353 | 1,453 |
| 470 (1,393) (923) | | | | | | |
| Income tax expense (benefit) | 614 | 228 | 842 | 290 | 91 | 381 |
| 58 (532) (474) | | | | | | |

| | | | | | | |
|---|-------|-----|-------|-----|-----|-------|
| Results of operations from oil and gas producing activities | 1,326 | 265 | 1,591 | 810 | 262 | 1,072 |
| 412 (861) (449) | | | | | | |

| | | | | | | |
|---------------------------------|---|----|----|---|----|----|
| Results from equity affiliates* | - | 26 | 26 | - | 10 | 10 |
| (3) (3) | | | | | | |

| | | | | | | |
|-----------------------|---------|--------|---------|--------|--------|---------|
| Total | \$1,326 | \$ 291 | \$1,617 | \$ 810 | \$ 272 | \$1,082 |
| 412 \$ (864) \$ (452) | | | | | | |

</TABLE>

*ARCO's share

The difference between the above results of operations and the amounts reported for exploration and production segment net income in Note 7 of Notes to Consolidated Financial Statements is primarily gains or losses on asset sales, the exclusion of non-producing exploration and production units (Alaskan pipelines, technical support), minority interest adjustments and restructuring costs related to oil and gas operations.

71

<PAGE>

Supplemental Information (Unaudited)

The standardized measure of discounted estimated future net cash flows related to proved oil and gas reserves at December 31 was as follows:

<TABLE>
<CAPTION>

| | | |
|------|------|------|
| | 2000 | 1999 |
| 1998 | | |

| | | | | | | |
|--------------------------|------|---------------|-------|------|---------------|-------|
| Billions | U.S. | International | Total | U.S. | International | Total |
| U.S. International Total | | | | | | |

| | | | | | | | | |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| <C> | <C> | | | | | | | |

| 2001-03 AR Annual Rpt (10K) for 2000.txt | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|----|
| Future cash inflows | \$39.0 | \$19.4 | \$58.4 | \$53.6 | \$24.6 | \$78.2 | \$ |
| 21.9 \$16.2 \$38.1 | | | | | | | |
| Future development and production costs | 8.3 | 6.4 | 14.7 | 16.8 | 7.8 | 24.6 | |
| 13.0 7.6 20.6 | | | | | | | |
| Future income tax expense | 10.0 | 3.6 | 13.6 | 12.9 | 5.8 | 18.7 | |
| 2.3 2.9 5.2 | | | | | | | |
| ----- | | | | | | | |
| Future net cash flows | 20.7 | 9.4 | 30.1 | 23.9 | 11.0 | 34.9 | |
| 6.6 5.7 12.3 | | | | | | | |
| 10% annual discount | 8.5 | 3.7 | 12.2 | 11.9 | 5.0 | 16.9 | |
| 2.7 2.7 5.4 | | | | | | | |
| ----- | | | | | | | |
| Standardized measure of discounted future net cash flows | 12.2 | 5.7 | 17.9 | 12.0 | 6.0 | 18.0 | |
| 3.9 3.0 6.9 | | | | | | | |
| ----- | | | | | | | |
| Standardized measure of discounted future net cash flows of equity affiliates* | - | 0.8 | 0.8 | - | 0.5 | 0.5 | |
| - 0.1 0.1 | | | | | | | |
| ----- | | | | | | | |
| Total | \$12.2 | \$6.5 | \$18.7 | \$12.0 | \$6.5 | \$18.5 | \$ |
| 3.9 \$3.1 \$7.0 | | | | | | | |

</TABLE>

*ARCO's share

Primary changes in the standardized measure of discounted estimated future net cash flows for the years ended December 31 were as follows:

| <TABLE> <CAPTION> Billions | | | |
|---|---------|---------|---------|
| | 2000 | 1999 | 1998 |
| ----- | | | |
| <S> | <C> | <C> | <C> |
| Sales and transfers of oil and gas, net of production costs | \$(4.4) | \$(3.7) | \$(2.7) |
| Extensions, discoveries and improved recovery, less related costs | 1.4 | 1.6 | 0.5 |
| Revisions of estimates of reserves proved in prior years: | | | |
| Quantity estimates | (0.8) | 0.9 | - |
| Net changes in price and production costs | 12.4 | 17.0 | (11.3) |
| Purchases/sales | (7.3) | (0.1) | 3.1 |
| Other | (0.4) | (0.5) | (0.6) |
| Accretion of discount | 0.9 | 1.0 | 1.7 |

| | | | |
|--|-------|--------|----------|
| Development costs incurred during the period | 1.4 | 1.7 | 2.3 |
| Net change in income taxes | (3.0) | (6.4) | 2.8 |
| Net change | \$0.2 | \$11.5 | \$ (4.2) |

</TABLE>

Estimated future cash inflows are computed by applying year-end prices of oil and gas to year-end quantities of proved reserves. Future price changes are considered only to the extent provided by contractual arrangements. Estimated future development and production costs are determined by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions. Estimated future income tax expense is calculated by applying year-end statutory tax rates (adjusted for permanent differences and tax credits) to estimated future pre-tax net cash flows related to proved oil and gas reserves, less the tax basis of the properties involved.

These estimates are furnished and calculated in accordance with requirements of the Financial Accounting Standards Board and the SEC. Estimates of future net cash flows presented do not represent management's assessment of future profitability or future cash flows to ARCO. Management's investment and operating decisions are based on reserve estimates that include proved reserves prescribed by the SEC as well as probable reserves, and on different price and cost assumptions from those used here.

It should be recognized that applying current costs and prices and a 10% standard discount rate does not convey absolute value. The discounted amounts arrived at are only one measure of the value of proved reserves.

72

<PAGE>

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

73

<PAGE>

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

EXECUTIVE OFFICERS OF ARCO

SEC rules require the designation by the company of its officers who are deemed "executive officers" for purposes of the proxy rules and insider reporting rules. The employees named below are ARCO's executive officers as of March 1, 2001. Designations for operating units have changed over time; names given are those in effect at time position was held.

ROBERT A. MALONE, Age 49

President of ARCO since November 13, 2000. Presently Regional President of BP Amoco p.l.c., and Vice President of BP America Inc. and BP Amoco p.l.c. since August 2000. President of Alyeska Pipeline Service Company, a subsidiary of BP America Inc., from September 1, 1996 to June 15, 2000; President of BP Pipelines (Alaska) Inc., a subsidiary of BP America Inc., from April 1, 1994 to September 1, 1996.

JACK E. GOLDEN, Age 52

Executive Vice President of ARCO since December 2000. Group Vice President of BP since 1997. President, BP Exploration Inc. from 1994 to 1997. Director of Amoco (U.K.) Exploration Company since April 1999; and a Director of BP Exploration (Alaska) Inc. since June 1999. Previously held position as a Director of various BP subsidiaries.

JOHN R. THOMAS, Age 44

Executive Vice President of ARCO since December 2000. From May 1995 to March 1998, Mr. Thomas has held various positions with BP.

IAN SPRINGETT, Age 43

Vice President and Chief Financial Officer of ARCO since October 2000. Vice President and Chief Financial Officer of BP America Inc. and of BP Amoco Corporation, two wholly owned subsidiaries of BP, since October 2000. From August 1985 to September 2000 Mr. Springett has held various positions with BP.

74

<PAGE>

DIRECTORS OF ARCO

Set forth below are the members of the Board of Directors of ARCO at March 1, 2001. All of the directors are employees of BP or its wholly owned subsidiaries other than ARCO or Vastar.

<TABLE>

| <C> | <S> |
|-------------------|---|
| ROBERT D. AGDERN | 51 Chairman of ARCO since June 23, 2000 and Director since April 18, 2000. President of ARCO from April 18, 2000-November 13, 2000. Director and President of BP America Inc. and BP Amoco Corporation, two wholly owned subsidiaries of BP from April 2000 to November 2000. Vice President of both companies since November 2000. Vice President and General Counsel of both companies from April 1999-April 2000. Between 1975 and April 1999, Mr. Agdern has held various positions with Amoco Corporation. |
| DONALD E. PACKHAM | 50 Director of ARCO since September 18, 2000. Vice President, Human Resources of ARCO since August 1, 2000. Senior Vice President, Human Resources of BP since August 1, 2000. Vice President, Human Resources Integration from February 1999 to July 2000. From October 1993 to January 1999, Mr. Packham held various positions with BP. |
| JAMES G. NEMETH | 42 Director of ARCO since April 18, 2000. Vice President and General Tax Officer of BP Amoco Corporation since April 1999; General Tax Officer of BP America Inc. since June 1996; Head of Taxation of BP Australia Ltd, a wholly owned subsidiary of BP, between October 1993 and June 1996. |

</TABLE>

75

<PAGE>

Executive officers and directors and "beneficial owners" of more than ten percent of the common stock or either class of the Preference Stocks must file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission (SEC) and the New York Stock Exchange pursuant to Section 16(a).

None of the executive officers or directors own any equity securities of ARCO. We have reviewed the reports and written representations from the executive officers and directors. Due to inadvertent oversights, certain employees of BP who were elected as officers and Directors of ARCO following the merger failed to file timely reports on Form 3. In all cases, the late report on Form 3 showed that no equity securities of ARCO were owned by any of these employees of BP. On July 18, 2000, Form 3s were filed by the following persons elected to their positions on April 18, 2000: Robert D. Agdern, director and President; John F. Campbell, director and Vice President; James G. Nemeth, Director and Vice President; Eileen A. Kamerick, Chief Financial Officer and Vice President; David H. Welch, Executive Vice President; and Roger E. Williams, Executive Vice President. On January 4, 2001, Form 3s were filed by the following persons elected to their positions on the date indicated in parentheses following their names: Robert A. Malone, President (November 13, 2000); Donald E. Packham, Director (September 18, 2000); and Ian Springett, Chief Financial Officer and Vice President (October 2, 2000).

76

<PAGE>

ITEM 11. EXECUTIVE COMPENSATION

PRE-MERGER AND CHANGE OF CONTROL COMPENSATION OF CERTAIN OF ARCO'S FORMER EXECUTIVE OFFICERS

Change of Control Benefits Received by Certain Former ARCO Executive Officers

General

As a result of the merger of ARCO into BP, effective April 18, 2000, ARCO employees terminated following the merger, including the former executive officers became eligible for the benefits described herein. In accordance with the proxy rules under the Securities & Exchange Act of 1934, described below are the change of control benefits received by three former executive officers of ARCO named below.

ARCO's Change of Control Arrangements Effective Upon Merger

Pursuant to the merger agreement between BP and ARCO, the consummation of the merger was considered a change of control within the meaning of ARCO's various change of control arrangements. BP and ARCO agreed that all of the change of control provisions would become operative immediately following the consummation of the merger. The merger agreement also specifically provided that all ARCO stock-related benefits automatically would be converted into the right to purchase or receive BP Amoco ordinary shares, which were issued in the form of BP ADSs.

Severance Benefits

The employment of all executive officers was terminated following the change of control. Severance benefits included:

- (1) an enhancement of the normal retirement benefit, known as the "5+5" because the enhancement adds five years of age and five years of service to the normal retirement benefit, payable in the form of a lump sum or an annuity,
- (2) a severance benefit equal to the product of one and one-half weeks of

Page 90

pay for each year of continuous service, capped at 36 weeks of pay, payable in a lump sum,

- (3) payment of the executive's pro-rated target Annual Incentive Plan (AIP) award, and
- (4) the continuation of health, dental and life insurance coverage for 36 months.

Other Change of Control Benefits

All executive officers, regardless of post-merger employment status, received the following benefits upon the merger:

- (1) crediting of prospective dividend share credits (future undeclared and unpaid dividends),
- (2) vesting of a pro-rated number of shares in respect of contingent stock awards,
- (3) lifting of restrictions on restricted stock, and
- (4) vesting of previously unvested stock options, other than options issued after April 1, 1999.

In addition to the change of control-related benefits, upon termination of employment, each of the named executive officers received normal retirement benefits, including payments under the retirement plan, the supplementary executive retirement plan and the executive deferral plan, and continued to hold previously vested options and other stock rights. The date of actual receipt of certain of the retirement benefits depended on an individual's age and length of service at the time of termination and on individual payout elections.

Prospective Dividend Share Credits (DSCs). Under ARCO's Executive Long-Term Incentive Plan (LTIP), for all option grants made prior to 1997, DSCs are credited to an optionee's account whenever dividends are declared on

<PAGE>

ARCO common stock. The number of credits is computed by multiplying the dividend rate per share times the sum of (1) the number of eligible options and (2) the number of DSCs then accrued and then dividing the resulting number by the stock price on the dividend record date. Upon exercise of options having the right to DSCs, the option holder is entitled to receive an additional number of shares equal to the number of DSCs then accrued with respect to the options being exercised. The number of prospective DSCs yet to be accrued for the remaining term of a particular option grant were accelerated and vested effective April 17, 2000.

Conversion and Vesting of Contingent Restricted Stock. Under the LTIP, since 1997, grants of contingent restricted stock have been awarded having one- to three-year performance periods. At the conclusion of the performance period, grants of restricted stock are made in amounts ranging from zero to three times the number of contingent shares awarded, depending on ARCO's performance relative to a peer group of other oil and gas companies. Effective April 17, 2000 upon the change of control, a prorated number of shares of common stock were granted based on the portion of the performance cycle completed for the outstanding 1998 and 1999 grants of contingent restricted stock.

Restricted Stock. Under the LTIP, performance based restricted stock was granted in 1999 and 2000, with each grant having a two-year restricted period. Prior to the merger, dividends paid after the grant date were reinvested in additional restricted stock. The restricted stock vested immediately upon the consummation of the merger.

Unvested Options. All unvested options granted prior to April 1, 1999, none of which had the right to DSCs, vested on the merger date. The unvested options granted for 1999 in February 2000 did not vest on the merger, nor did they have the right to DSCs. In addition, the net value of each executive's vested options (and related DSCs) had accrued to his or her account regardless

2001-03 AR Annual Rpt (10K) for 2000.txt
of the change of control provisions.

Indemnification, Directors' and Officers' Insurance
BP has agreed to indemnify and provide directors' and officers' liability insurance through April 18, 2006 for individuals who were directors or officers of ARCO prior to April 18, 2000 for their acts or omissions in that capacity.

78

<PAGE>

Pre-Merger and Change of Control Summary
Compensation Table

<TABLE>

<CAPTION>

Long-Term

Compensation

| | | Annual Compensation | | | Awards | |
|-------------------------|--------------------------|---------------------|------------|--------------|--------------|---------|
| Payouts | | | | | | |
| ARCO | All Other | | | | Other Annual | ARCO |
| Restricted Compensation | Compensation | | | | Compensation | Options |
| Name & Position | | Year | Salary | Bonus (\$) | (\$) | (#) |
| Stock (#) | (\$) | | (\$) | | (2) | (3) |
| (4) | (5) | | | | | |
| | | <C> | <C> | <C> | <C> | <C> |
| 12,977 | Mike R. Bowlin | 2000(1) | \$ 407,077 | \$ 345,915 | \$ 28,118 | -- |
| 18,220 | \$ 1,607,601 | 1999 | \$ 980,000 | \$ 1,557,710 | \$ 14,377 | 217,329 |
| 3,036 | Chairman of the Board | 1998 | \$ 980,000 | \$ 740,000 | \$ 167,131 | 131,986 |
| | \$ 131,270 | | | | | |
| | Chief Executive Officer | | | | | |
| | \$ 117,722 | | | | | |
| 5,057 | Michael E. Wiley | 2000(1) | \$ 270,000 | \$ 202,459 | \$ 13,141 | -- |
| 7,100 | \$ 858,297 | 1999 | \$ 642,308 | \$ 841,500 | \$ 16,731 | 96,436 |
| 1,183 | President | 1998 | \$ 525,769 | \$ 332,500 | \$ 42,984 | 140,902 |
| | \$ 89,432 | | | | | |
| | Chief Operating Officer | | | | | |
| | \$ 59,553 | | | | | |
| 5,057 | Marie L. Knowles | 2000(1) | \$ 207,692 | \$ 134,973 | \$ 14,804 | -- |
| 7,100 | \$ 729,667 | 1999 | \$ 500,000 | \$ 662,010 | \$ 13,244 | 74,560 |
| 1,183 | Executive Vice President | 1998 | \$ 500,000 | \$ 310,000 | \$ 47,437 | 46,571 |
| | \$ 82,193 | | | | | |
| | Chief Financial Officer | | | | | |
| | \$ 67,069 | | | | | |

</TABLE>

Notes to Summary Compensation Table

- (1) All information in this chart for the year 2000 covers the period January 1-June 1, 2000. Messrs. Bowlin and Wiley and Mrs. Knowles resigned as officers and directors of ARCO on April 18, 2000 concurrently with the merger of ARCO with BP Amoco, and retired from employment with ARCO on June 1, 2000.
- (2) Other Annual Compensation. "Other Annual Compensation" includes amounts of tax gross-ups for financial counseling reimbursements and for certain other items reported under IRS rules as imputed income.
- (3) Types of Option Grants. Prior to the merger of ARCO into BP Amoco, options exercisable for common stock of ARCO were issued under ARCO's Executive Long-Term Incentive Plan (LTIP). All information herein relates to the number of options for ARCO common stock. Pursuant to the merger agreement, all options for ARCO common stock became converted into rights to BP ADSS. Two types of option grants were made under the LTIP for the years 1998 and 1999. No option grants were made for 2000 in 2001:

. regular annual options made in February of each year for the preceding fiscal year

. special awards upon promotions and other special circumstances.

Special grants. Special grants were as follows:

<TABLE>

<S>

Mr. Wiley

<C>

<C>

President and Chief Operating Officer..... 82,300 options October 1998

</TABLE>

Number of Dividend Share Credits. The number of dividend share credits accrued during each period with respect to ARCO options granted prior to 1997 are shown below.

<TABLE>

<CAPTION>

2000* 1999 1998

<S>

<C>

<C>

<C>

Mr. Bowlin 5,986 20,796 22,150

Mr. Wiley none none none

Mrs. Knowles 1,170 3,898 4,475

</TABLE>

* Accrued through April 17, 2000.

<PAGE>

Notes to Pre-Merger and Change of Control Summary Compensation Table

Computation of Dividend Share Credits. Prior to the merger, dividend share credits were allocated to an optionee's account whenever dividends were declared on common stock. The number of credits is computed by

. multiplying the dividend rate per share times

(1) the number of eligible options plus

(2) the number of dividend share credits then accrued

. and dividing the resulting number by the fair market value of the common stock on the dividend record date.

Prior to the merger the value of the accrued dividend share credits was not fixed until the eligible options were exercised. The value, which was received in shares of stock or cash, was equal to the number of accrued credits allocated to the options being exercised multiplied by the fair market value of the common stock on the date of exercise. Until the option exercise date the optionee had no right to their value. Following the merger, all dividend share credits were vested and were converted into BP ADSS.

- (4) Restricted Stock Awards. The Executive Long-Term Incentive Plan was amended in 1997 to provide for grants of restricted stock. Prior to the merger participants could earn restricted stock based on ARCO's total return to shareholders as measured against that of a peer group. The table shows the normal lifting of restrictions on the 1998 grant of restricted stock on February 23, 2000, before the re-investment of dividends.

On the merger date, restrictions were also lifted on the 1999 and 2000 grants of restricted stock. The fair market value of ARCO Common Stock converted to ADSS on April 18, 2000, was \$47.75 per ADS. The values of the restricted shares to each of the named officers on this date were:

<TABLE>

| | | |
|--------------|---------------|--------------|
| <S> | <C> | <C> |
| Mr. Bowlin | 35,025 shares | \$ 1,672,446 |
| Mr. Wiley | 13,648 shares | \$ 651,716 |
| Mrs. Knowles | 13,648 shares | \$ 651,716 |

</TABLE>

Values for 1998 and 1999 Grants. The value of the shares of restricted stock awarded for the years 1998 and 1999, based on the fair market value of \$79.59 per share on April 17, 2000, for each named officer is shown below:

<TABLE>

| | |
|--------------|--------------|
| <S> | <C> |
| Mr. Bowlin | \$ 7,698,732 |
| Mr. Wiley | \$ 3,178,082 |
| Mrs. Knowles | \$ 2,891,208 |

</TABLE>

Acceleration and Vesting of Outstanding Contingent Restricted Stock Following Change of Control. Pursuant to the change of control provisions in the merger agreement, outstanding shares of contingent restricted ARCO stock were converted into ADSS of BP effective May 2, 2000. The value of the total ADSS granted, based on a fair market value of \$51.4375 per ADS, to each of the named officers was as follows:

<TABLE>

| | |
|--------------|--------------|
| <S> | <C> |
| Mr. Bowlin | \$ 5,175,258 |
| Mr. Wiley | \$ 2,194,757 |
| Mrs. Knowles | \$ 1,887,883 |

</TABLE>

<PAGE>

(5) All Other Compensation includes the amounts shown below:

<TABLE>
<CAPTION>

| | Year | Mr. Bowlin | Mr. Wiley | Mrs. Knowles |
|---|------|--------------|--------------|--------------|
| <S> | <C> | <C> | <C> | <C> |
| Executive Supplementary Savings Plan contributions | 2000 | \$ 32,566 | \$ 21,600 | \$ 16,615 |
| | 1999 | \$ 78,400 | \$ 51,385 | \$ 40,000 |
| | 1998 | \$ 78,400 | \$ 42,061 | \$ 40,000 |
| Financial Counseling reimbursements | 2000 | \$ 13,200 | \$ 11,600 | \$ 13,200 |
| | 1999 | \$ 13,200 | \$ 19,400 | \$ 17,200 |
| | 1998 | \$ 8,000 | \$ -- | \$ 8,000 |
| Executive Life Insurance Plan* | 2000 | \$ 14,962 | \$ 6,827 | \$ 7,301 |
| | 1999 | \$ 39,670 | \$ 18,647 | \$ 24,993 |
| | 1998 | \$ 27,509 | \$ 10,455 | \$ 15,312 |
| Long-Term Disability Plan imputed income | 2000 | | | |
| | 1999 | \$ -- | \$ -- | \$ -- |
| | 1998 | \$ 3,813 | \$ 7,037 | \$ 3,757 |
| Pay-in-lieu of vacation** | 2000 | \$ 113,077 | \$ 62,500 | \$ 48,077 |
| | 1999 | -- | -- | -- |
| | 1998 | -- | -- | -- |
| Pay-in-lieu of Notice** | 2000 | \$ 45,231 | \$ 30,000 | \$ 23,077 |
| | 1999 | -- | -- | -- |
| | 1998 | -- | -- | -- |
| Severance Benefit of 1 1/2 weeks pay/year of service** | 2000 | \$ 678,462 | \$ 450,000 | \$ 346,154 |
| | 1999 | -- | -- | -- |
| | 1998 | -- | -- | -- |
| Pro-rated AIP** | 2000 | \$ 345,945 | \$ 202,459 | \$ 134,973 |
| | 1999 | -- | -- | -- |
| | 1998 | -- | -- | -- |
| Cash Payment in lieu of Partial Restricted Stock Award*** | 2000 | \$ 725,065 | \$ 282,545 | \$ 282,545 |
| | 1999 | -- | -- | -- |
| | 1998 | -- | -- | -- |
| Enhanced 5+5 Retirement**** | 2000 | \$ 6,297,412 | \$ 4,215,975 | \$ 3,283,512 |
| | 1999 | -- | -- | -- |
| | 1998 | -- | -- | -- |

</TABLE>

* SEC rules require the reporting of value received in respect of executive life insurance. These numbers have been calculated pursuant to SEC rules.

** Amounts represent severance benefits paid upon retirement of the named executive officers following the merger.

*** Payment resulted from a recalculation of the performance multiple for the 2000 grant of restricted stock.

**** Amounts represent enhanced component included in lump sum payment of retirement benefit at termination.

<PAGE>

2001-03 AR Annual Rpt (10K) for 2000.txt
As of April 17, 2000

<TABLE>
<CAPTION>

| in-the-Money Options | ARCO Shares Acquired on Exercise (#) (4) | Value Realized (\$) | Total Number of Unexercised Options(1) | | value of Unexercised Options(2)(3) | |
|---------------------------------------|---|---------------------------|---|----------------------|--|-----------------------|
| | | | Exercisable (#) | Unexercisable (#) | Exercisable (\$) | Unexercisable (\$) |
| Unexercisable Name (\$) | | | | | | |
| - | | | | | | |
| <S> M. R. Bowlin(5) \$4,583,597 | <C> 15,664 | <C> \$1,065,152 | <C> 658,674 | <C> 346,053 | <C> \$14,011,559 | <C> |
| - | | | | | | |
| M. E. Wiley(5) \$2,619,691 | 0 | 0 | 112,966 | 210,070 | \$ 1,276,856 | |
| - | | | | | | |
| M. L. Knowles(5) \$1,621,523 | 0 | 0 | 168,277 | 125,306 | \$ 3,069,195 | |

Notes to Option Exercise Table

- (1) Prior to the merger, options awarded prior to 1997 carried with them the right to a potential payment in respect of dividend share credits. See Note (3) of Notes to Pre-Merger Summary Compensation Table.
- (2) Closing price of ARCO common stock on April 17, 2000 was \$79.59.
- (3) For illustrative purposes only, set forth below are the hypothetical aggregate values of both in-the-money exercisable options and unexercisable options, including the value of the dividend share credits accrued through April 17, 2000, in respect of options granted prior to 1997. These calculations assume these options were exercised on April 17, 2000, at the closing price of \$79.59. All unexercisable in-the-money options were granted in 1997 or later and therefore do not carry with them the right to dividend share credits.

<TABLE>
<CAPTION>

In-the-Money Option Values,
Including Dividend Share Credit Values
at April 17, 2000

Exercisable Options Unexercisable Options

2001-03 AR Annual Rpt (10K) for 2000.txt

| | | |
|--------------|--------------|-------------|
| <S> | <C> | <C> |
| Mr. Bowlin | \$24,120,475 | \$4,583,597 |
| Mr. Wiley | \$ 1,276,856 | \$2,619,691 |
| Mrs. Knowles | \$ 4,334,266 | \$1,621,523 |

</TABLE>

- (4) Represents number of options exercised; underlying shares were sold for "value realized."
- (5) Vesting of Prospective Dividend Share Credits. Pursuant to the merger agreement, the number of prospective dividend share credits yet to be accrued for the remaining term of outstanding options vested upon the change of control. At April 17, 2000, the number and value of these prospective dividend share credits were as follows:

<TABLE>
<CAPTION>

| | | |
|--------------|---------|-------------|
| | Number | Value |
| <S> | <C> | <C> |
| Mr. Bowlin | 109,848 | \$8,743,240 |
| Mr. Wiley | - | - |
| Mrs. Knowles | 26,161 | \$2,082,243 |

</TABLE>

82

<PAGE>

Estimated Regular Retirement Benefits

The following table shows estimated annual regular pension benefits payable to officers and other key employees upon retirement on January 1, 2001 at age 65 under the provisions of ARCO's qualified pension plan as well as its non-qualified supplementary retirement plan, based on remuneration and years of service.

<TABLE>
<CAPTION>

| Average final earnings (average of highest three consecutive years of base salary plus Annual Incentive Plan awards) | Approximate annual benefit for years of membership service indicated(1)(2) | | | | | |
|---|---|------------|------------|--------------|--------------|--------------|
| | 15 Years | 20 Years | 25 Years | 30 Years | 35 Years | 40 Years |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| \$2,250,000 | \$ 518,000 | \$ 691,000 | \$ 864,000 | \$ 1,037,000 | \$ 1,210,000 | \$ 1,373,000 |
| 2,000,000 | 461,000 | 614,000 | 768,000 | 921,000 | 1,075,000 | 1,220,000 |
| 1,750,000 | 403,000 | 537,000 | 672,000 | 806,000 | 940,000 | 1,067,000 |
| 1,500,000 | 345,000 | 460,000 | 575,000 | 690,000 | 806,000 | 914,000 |
| 1,250,000 | 287,000 | 383,000 | 479,000 | 575,000 | 671,000 | 761,000 |
| 1,000,000 | 230,000 | 306,000 | 383,000 | 459,000 | 536,000 | 609,000 |

Page 97

2001-03 AR Annual Rpt (10K) for 2000.txt

| | | | | | | |
|---------|---------|---------|---------|---------|---------|---------|
| 750,000 | 172,000 | 229,000 | 287,000 | 344,000 | 401,000 | 456,000 |
| 500,000 | 114,000 | 152,000 | 190,000 | 228,000 | 267,000 | 303,000 |
| 250,000 | 56,000 | 75,000 | 94,000 | 113,000 | 132,000 | 150,000 |

</TABLE>

Notes To Estimated Regular Retirement Benefits.

(1) The amounts shown are based upon a number of assumptions, including:

- . Retirement date of January 1, 2001.
- . Payment option: benefit for the life of employee, with a minimum payment period of 60 months. If a lump sum or other payment option is elected, the amount will change.
- . Benefits are not subject to deduction for Social Security benefits or other offsets.

(2) Credited years of service at retirement date of June 1, 2000:

<TABLE>
 <S> <C>
 Mr. Bowlin 31 years, 5 months
 Mr. Wiley 28 years
 Mrs. Knowles 27 years, 6 months
 </TABLE>

83

<PAGE>

POST-MERGER COMPENSATION OF CURRENT EXECUTIVE OFFICERS

Post-Merger Summary Compensation Table

<TABLE>
 <CAPTION>

| Other Compensation Name & Position | Year | Annual Compensation | | Long-Term Compensation | | All |
|---------------------------------------|----------|---------------------|------------|------------------------|------------------------------|-----|
| | | Other Annual | | Awards | Payouts | |
| | | Salary (\$) | Bonus (\$) | Compensation (\$) | Options Restricted Stock (#) | |
| (3) <S> R. A. Malone, President | <C> 2000 | <C> (1) | <C> (1) | <C> (1) | <C> (2) | <C> |
| (3) J. E. Golden, Vice President | 2000 | (1) | (1) | (1) | (2) | |

(3) J. R. Thomas, Vice President (2)

(3) Ian Springett, Vice President and Chief Financial Officer (2)

</TABLE>

Notes to Post-Merger Summary Compensation Table

- (1) Annual Compensation. None of the named executive officers received any compensation from ARCO for their services. All of the named executive officers are employees of BP or its wholly owned subsidiaries other than ARCO or Vastar. Any amounts shown for salary or bonus represent the pro rata portion of the amount paid to the officer in his capacity as a BP employee in respect of the portion of his time allocable to activities as an officer of ARCO. The pro rated amount for each of the named officers was less than \$100,000 and not required to be disclosed pursuant to SEC rules. Since BP became the owner of all of the common stock of ARCO following the merger, BP determined that the organization of its business operations obviated the need for a chief executive officer of ARCO. BP organizes its businesses according to functional relationships and not according to corporate identity.
- (2) Long-Term Compensation. No amounts are shown, because all equity-related long-term compensation was payable in BP equity securities and not in ARCO equity securities.
- (3) All Other Compensation. Any amounts payable in respect of other employee benefits were paid pursuant to BP benefit plans, and hence are not shown in this chart.

Compensation of Directors

None of the members of the Board of Directors receives any compensation from ARCO for their services. All of the members of the Board are employees of BP or wholly owned subsidiaries other than ARCO or Vastar.

84

<PAGE>

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Voting Stock of ARCO Owned by "Beneficial Owner"

The following is the only entity known by ARCO to own beneficially more than five percent of any class of the company's voting securities as of February 1, 2001.

<TABLE>

<CAPTION>

| Title of Class | Name and Address | Number of Shares | Percent of Class |
|----------------|------------------|------------------|------------------|
|----------------|------------------|------------------|------------------|

| | | | |
|--------------|---|----------------|------|
| Common Stock | BP Amoco p.l.c. Britannic House 1 Finsbury Circus | 327,436,320(*) | 100% |
|--------------|---|----------------|------|

</TABLE>

* The total number of shares of outstanding common stock, none of which are registered with the SEC or publicly traded, is based on information furnished to ARCO by BP. These shares are owned by BP through BP America, a wholly owned Delaware subsidiary of BP which owns 324,711,290 shares. The remaining 2,725,030 shares are owned by CH-Twenty, Inc., a wholly owned Delaware subsidiary of ARCO. BP has indirect sole voting, dispositive and investment power over all of the common stock of ARCO, and is the controlling shareholder of ARCO.

Stock of BP Owned by Directors and Executive Officers

None of the directors or executive officers of ARCO owns any shares of the common or Preferred Stocks of ARCO. As employees of subsidiaries of BP other than ARCO, they participate in United States employee stock compensation plans. This table indicates the number of ADS Shares of BP, the indirect controlling shareholder of ARCO, owned by the executive officers and directors as of February 1, 2001. This number includes options exercisable within 60 days of February 1, 2001. The total number of shares in BP owned by all directors and executive officers is less than 1%. Each individual has sole voting and investment power for the shares indicated below.

<TABLE>
<CAPTION>

| Name | Aggregate Number of ADSS Beneficially Owned as of February 1, 2001 | Aggregate Number of BP Ordinary Shares Owned as of February 1, 2001 |
|---|--|---|
| <C> Robert D. Agdern(1) | <S> 182,096 | <C> -- |
| J. E. Golden(2) | 47,771 | -- |
| Robert A. Malone(3) | 35,366 | -- |
| James G. Nemeth(4) | 16,967 | 5,044 |
| Donald E. Packham(5) | 43,239 | -- |
| Ian Springett(6) | 1,480 | 9,600 |
| J. R. Thomas(7) | 2,908 | 86,899 |
| All directors and executive officers as a group(8) | 329,827 | 101,543 |

</TABLE>

- (1) Includes 167,621 options exercisable within 60 days of February 1, 2000, 3,222 shares held jointly with his spouse, as to which Mr. Agdern shares investment and voting power, and shares held in BP benefit plans.
- (2) Includes 7,142 options and 29,736 SARs exercisable within 60 days as of February 1, 2001, and shares held in BP benefit plans.
- (3) Includes 8,458 options and 7,000 SARs exercisable within 60 days of February 1, 2001, and shares held in BP benefit plans.
- (4) Includes 4,334 options and 9,600 SARs exercisable within 60 days of February 1, 2001 and shares held in BP benefit plans.

- (5) Includes 7,142 options and 29,736 SARs exercisable within 60 days of February 1, 2000 and shares held in BP benefit plans.
- (6) Includes 9,600 options exercisable within 60 days of February 1, 2001.
- (7) Includes options for 1,408 ADSS and SARs for 14,700 ADSS and options for 64,000 BP Ordinary Shares exercisable within 60 days of February 1, 2001.
- (8) See notes (1)-(7).

85

<PAGE>

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Controlling Shareholder

BP is the controlling shareholder of ARCO because it owns all of the outstanding common stock of ARCO.

Related Party Transactions

Sales to and purchases from BP or its subsidiaries consisted primarily of the sale or purchase of petroleum liquids and natural gas. Related party interest in 2000 relates to an intercompany receivable from BP that has been outstanding since the sale of Alaskan operations in the second quarter 2000. Pursuant to the terms of the Merger Agreement, BP has assumed certain obligations of ARCO, all relating to compensation and other employee benefit matters, following the merger. See Note 3 of Notes to Consolidated Financial Statements.

86

<PAGE>

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

- 1 and 2. Financial Statements and Financial Statement Schedules: These documents are listed in the Index to Consolidated Financial Statements and Financial Statement Schedule.
- 3. Exhibits:
 - 2.1 Agreement and Plan of Merger Among BP Amoco p.l.c., Atlantic Richfield Company and Prairie Holdings, Inc. dated as of March 31, 1999, as amended as of July 12, 1999, filed with the Commission as Exhibit 2 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1999, under File No. 1-1196 and incorporated herein by reference.
 - 2.2 Amendment No. 1 to Agreement and Plan of Merger, dated as of July 12, 1999, filed with the Commission as Exhibit 2.1 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1999, under File No. 1-1196 and incorporated herein by reference.
 - 3.1 Restated Certificate of Incorporation of Atlantic Richfield Company ("ARCO") as of June 27, 1994, filed with the Securities and Exchange Commission (the "Commission") as

Page 101

2001-03 AR Annual Rpt (10K) for 2000.txt
Exhibit 3 to ARCO's report on Form 10-Q for the quarterly period ended June 30, 1994, under File No. 1-1196 and incorporated herein by reference.

- 3.2 By-Laws of ARCO as amended through November 23, 1998, filed with the Commission as Exhibit 3 to ARCO's Current Report on Form 8-K dated November 23, 1998, under File No. 1-1196 and incorporated herein by reference.
- 3.3 Guarantee dated February 1, 2001 given by BP Amoco p.l.c. in favor of holders of \$2.80 Cumulative Convertible Preference Stock, filed herewith.
- 3.4 Notice of Redemption dated March 28, 2001 calling for redemption of all outstanding shares of \$2.80 Cumulative Convertible Preference Stock on April 27, 2001, filed herewith.
- 3.5 Guarantee dated February 1, 2001 given by BP Amoco p.l.c. in favor of holders of \$3.00 Cumulative Preference Stock, filed herewith.
- 3.6 Notice of Redemption dated March 28, 2001 calling for redemption of all outstanding shares of \$3.00 Cumulative Convertible Preference Stock on April 27, 2001, filed herewith.
- 4.1 Indenture dated as of May 15, 1985 between ARCO and The Chase Manhattan Bank, N.A., filed with the Commission on January 27, 1999 as Exhibit 4.2 to ARCO's Registration Statement on Form S-3 (No. 333-71293), under File No. 1-1196 and incorporated herein by reference.
- 4.2 Indenture, dated as of January 1, 1992, between ARCO and The Bank of New York, filed with the Commission on January 27, 1999 as Exhibit 4.3 to ARCO's Registration Statement on Form S-3 (No. 333-71293, under File No. 1-1196) and incorporated herein by reference.
- 4.3 Instruments defining the rights of holders of long-term debt which is not registered under the Securities Exchange Act of 1934 are not filed because the total amount of securities authorized under any such instrument does not exceed 10% of the consolidated total assets of the Company. The Company agrees to furnish a copy of any such instrument to the Commission upon request.

87

<PAGE>

- 10.1(a)* Atlantic Richfield Company Supplementary Executive Retirement Plan, as adopted by the Board of Directors of ARCO on March 26, 1990 and effective as of October 1, 1990, filed with the Commission as Exhibit 10.2 to ARCO's report on Form 10-K for the year 1990, under File No. 1-1196 and incorporated herein by reference.
- 10.1(b)* Amendment No. 1 to the Atlantic Richfield Company Supplementary Executive Retirement Plan, effective as of March 22, 1993, filed with the Commission as Exhibit 10 to ARCO's report on Form 10-Q for the quarterly period ended June 30, 1993, under File No. 1-1196 and incorporated herein by reference.

Page 102

- 10.1(c)* Amendment No. 2 to the Atlantic Richfield Company Supplementary Executive Retirement Plan, effective as of February 28, 1994, filed with the Commission as Exhibit 10.1(c) to ARCO's report on Form 10-K for the year 1995, under File No. 1-1196 and incorporated herein by reference.
- 10.1(d)* Amendment No. 3 to the Atlantic Richfield Company Supplementary Executive Retirement Plan, effective as of August 1, 1997, filed with the Commission as Exhibit 10.1(d) to ARCO's report on Form 10-K for the year 1997, under File No. 1-1196 and incorporated herein by reference.
- 10.1(e)* Amendment No. 4 to the Atlantic Richfield Company Supplementary Executive Retirement Plan, effective as of August 1, 1997, filed with the Commission as Exhibit 10.1 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1998, under File No. 1-1196 and incorporated herein by reference.
- 10.1(f)* Amendment No. 5 to the Atlantic Richfield Company Supplementary Executive Retirement Plan, effective as of May 1, 1997, filed with the Commission as Exhibit 10.1(f) to ARCO's report on Form 10-K for the year 1998, under File No. 1-1196 and incorporated herein by reference.
- 10.2(a)* Atlantic Richfield Company Executive Deferral Plan, as adopted by the Board of Directors of the Company on March 26, 1990 and effective as of October 1, 1990, filed with the Commission as Exhibit 10.3 to ARCO's report on Form 10-K for the year 1990, under File No. 1-1196 and incorporated herein by reference.
- 10.2(b)* Amendment No. 1 to the Atlantic Richfield Company Executive Deferral Plan, effective as of July 27, 1992, filed with the Commission as Exhibit 10.2(b) to ARCO's report on Form 10-K for the year 1992, under File No. 1-1196 and incorporated herein by reference.
- 10.2(c)* Amendment No. 2 to the Atlantic Richfield Company Executive Deferral Plan, effective as of February 28, 1994, filed with the Commission as Exhibit 10.2(c) to ARCO's report on Form 10-K for the year 1995, under File No. 1-1196 and incorporated herein by reference.
- 10.2(d)* Amendment No. 3 to the Atlantic Richfield Company Executive Deferral Plan, effective as of January 1, 1997, filed with the Commission as Exhibit 10.2(d) to ARCO's report on Form 10-K for the year 1997, under File No. 1-1196 and incorporated herein by reference.
- 10.2(e)* Amendment No. 4 to the Atlantic Richfield Company Executive Deferral Plan, effective as of January 1, 1997, filed with the Commission as Exhibit 10.2 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1998, under File No. 1-1196 and incorporated herein by reference.

- 10.2(f)* Amendment No. 5 to the Atlantic Richfield Company Executive Deferral Plan, effective as of May 1, 1997, filed with the Commission as Exhibit 10.2(f) to ARCO's report on Form 10-K for the year 1998, under File No. 1-1196 and incorporated

2001-03 AR Annual Rpt (10K) for 2000.txt
herein by reference.

- 10.3(a)* Atlantic Richfield Company Executive Supplementary Savings Plan II, as amended, restated and effective as of July 1, 1988, filed with the Commission as Exhibit 10.6(b) to ARCO's report on Form 10-K for the year 1988, under File No. 1-1196 and incorporated herein by reference.
- 10.3(b)* Amendment No. 1 to the Atlantic Richfield Company Executive Supplementary Savings Plan II, as amended and effective as of January 1, 1989, filed with the Commission as Exhibit 10.6(b) to ARCO's report on Form 10-K for the year 1989, under File No. 1-1196 and incorporated herein by reference.
- 10.3(c)* Amendment No. 2 to the Atlantic Richfield Company Executive Supplementary Savings Plan II, as amended and effective as of July 1, 1994, filed with the Commission as Exhibit 10.4(c) to ARCO's report on Form 10-K for the year 1994, under File No. 1-1196 and incorporated herein by reference.
- 10.3(d)* Amendment No. 3 to the Atlantic Richfield Company Executive Supplementary Savings Plan II, as amended and effective as of August 5, 1996, filed with the Commission as Exhibit 10.4(d) to ARCO's report on Form 10-K for the year 1996, under File No. 1-1196 and incorporated herein by reference.
- 10.4* Atlantic Richfield Company Policy on Financial Counseling and Individual Income Tax Service, as revised and effective January 1, 1997, filed with the Commission as Exhibit 10.4 to ARCO's report on Form 10-K for the year 1998, under File No. 1-1196 and incorporated herein by reference.
- 10.5(a)* Annual Incentive Plan, as adopted by the Board of Directors of ARCO on November 26, 1984, and effective as of that date, as amended through February 28, 1994, filed with the Commission as Exhibit 10.6 to ARCO's report on Form 10-K for the year 1994, under File No. 1-1196 and incorporated herein by reference.
- 10.5(b)* Amendment No. 3 to the Annual Incentive Plan, effective as of January 1, 1995, filed with the Commission as Exhibit 10.6(b) to ARCO's report on Form 10-K for the year 1995, under File No. 1-1196 and incorporated herein by reference.
- 10.5(c)* Amendment No. 4 to the Annual Incentive Plan, effective as of February 24, 1997, filed with the Commission as Exhibit 10.5(c) to ARCO's report on Form 10-K for the year 1997, under File No. 1-1196 and incorporated herein by reference.
- 10.5(d)* Amendment No. 5 to the Atlantic Richfield Company Annual Incentive Plan, effective as of July 28, 1997, filed with the Commission as Exhibit 10.3 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1998, under File No. 1-1196 and incorporated herein by reference.
- 10.5(e)* Amendment No. 6 to the Atlantic Richfield Company Annual Incentive Plan, effective as of July 28, 1997, filed with the Commission as Exhibit 10.4 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1998, under File No. 1-1196 and incorporated herein by reference.

- 10.6(a)* Atlantic Richfield Company's 1985 Executive Long-Term Incentive Plan, as adopted by the Board of Directors of ARCO on May 28, 1985, and effective as of that date, as amended through July 28, 1997, filed with the Commission as Exhibit 10.6 to ARCO's report on Form 10-K for the year 1997, under File No. 1-1196 and incorporated herein by reference.
- 10.6(b)* Amendment No. 10 to the Atlantic Richfield Company 1985 Executive Long-Term Incentive Plan, effective as of July 18, 1997, filed with the Commission as Exhibit 10.5 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1998, under File No. 1-1196 and incorporated herein by reference.
- 10.6(c)* Amendment No. 11 to the Atlantic Richfield Company 1985 Executive Long-Term Incentive Plan, effective as of July 18, 1997, filed with the Commission as Exhibit 10.6 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1998, under File No. 1-1196 and incorporated herein by reference.
- 10.6(d)* Amendment No. 12 to Atlantic Richfield Company 1985 Executive Long-Term Incentive Plan, effective March 23, 1999, filed with the Commission as Exhibit 10.3 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1999, under File No. 1-1196 and incorporated herein by reference.
- 10.6(e) Amendment No. 13 to Atlantic Richfield Company 1985 Executive Long-Term Incentive Plan, effective March 31, 1999, filed with the Commission as Exhibit 10.4 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1999, under File No. 1-1196 and incorporated herein by reference.
- 10.6(f)* Amendment No. 14 to Atlantic Richfield Company 1985 Executive Long-Term Incentive Plan, effective December 10, 1999, filed herewith.
- 10.6(g)* Amendment No. 15 to Atlantic Richfield Company 1985 Executive Long-Term Incentive Plan, effective February 15, 2000, filed herewith.
- 10.7(a)* Atlantic Richfield Company Executive Life Insurance Plan-- Summary Plan Description, effective as of June 28, 1990, filed with the Commission as Exhibit 10.8 to ARCO's report on Form 10-K for the year 1993, under File No. 1-1196 and incorporated herein by reference.
- 10.7(b)* Amendment No. 1 to the Atlantic Richfield Company Executive Life Insurance Plan, effective July 28, 1997, filed with the Commission as Exhibit 10.7(b) to ARCO's report on Form 10-K, under File No. 1-1196 and incorporated herein by reference.
- 10.7(c)* Amendment No. 2 to the Atlantic Richfield Company Executive Life Insurance Plan, effective July 28, 1997, filed with the Commission as Exhibit 10.7(c) to ARCO's report on Form 10-K, under File No. 1-1196 and incorporated herein by reference.
- 10.7(d)* Amendment No. 3 to the Atlantic Richfield Company Executive Life Insurance Plan, effective May 1, 1997, filed with the Commission as Exhibit 10.7(d) to ARCO's report on Form 10-K, under File No. 1-1196 and incorporated herein by reference.

- 2001-03 AR Annual Rpt (10K) for 2000.txt
- 10.8(a)* Atlantic Richfield Company Executive Long-Term Disability Plan--Summary Plan Description, effective as of January 1, 1994, filed with the Commission as Exhibit 10.9 to ARCO's report on Form 10-K for the year 1993, under File No. 1-1196 and incorporated herein by reference.

90

<PAGE>

- 10.8(b)* Amendment No. 1 to the Atlantic Richfield Company Executive Long-Term Disability Plan, effective as of February 28, 1994, filed with the Commission as Exhibit 10.9(b) to ARCO's report on Form 10-K for the year 1995, under File No. 1-1196 and incorporated herein by reference.
- 10.8(c)* Amendment No. 2 to the Atlantic Richfield Company Executive Long-Term Disability Plan, effective May 1, 1997, filed with the Commission as Exhibit 10.8(c) to ARCO's report on Form 10-K, under File No. 1-1196 and incorporated herein by reference.
- 10.9 Amendment No. 6 to the Atlantic Richfield Company Special Termination Allowance Plan which contains the current change of control provisions applicable to the Company's executive management team, including its five most highly compensated executive officers, effective as of July 28, 1997, filed with the Commission as Exhibit 10.7 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1998, under File No. 1-1196 and incorporated herein by reference.
- 10.10 Form of Indemnity Agreement filed with the Commission as Exhibit 99 to ARCO's Registration Statement on Form S-3 (No. 333-71293) under File No. 1-1196 and incorporated herein by reference.
- 21 Subsidiaries of the Registrant.

Copies of exhibits will be furnished upon prepayment of 25 cents per page. Requests should be addressed to the Corporate Secretary.

* Management compensatory plans filed as exhibits hereto pursuant to Item 14(c) of Form 10-K.

(b) Reports on Form 8-K:

The following Current Reports on Form 8-K were filed during the quarter ended December 31, 2000, and thereafter through March 28, 2001:

None

91

<PAGE>

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused the amendment to this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ATLANTIC RICHFIELD COMPANY

By: /s/ Robert A. Malone

Robert A. Malone

Page 106

2001-03 AR Annual Rpt (10K) for 2000.txt
President and Principal Executive
Officer

March 30, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<TABLE>
<CAPTION>

| Signature ----- | Title ----- | Date ----- |
|--|---|-----------------------|
| <S> /s/ Robert D. Agdern ----- Robert D. Agdern | <C> Chairman of the Board | <C> March 30, 2001 |
| /s/ James G. Nemeth ----- James G. Nemeth | Director | March 30, 2001 |
| /s/ Donald E. Packham ----- Donald E. Packham | Director | March 30, 2001 |
| /s/ Ian Springett ----- Ian Springett | Vice President and Chief Financial Officer | March 30, 2001 |
| /s/ Charles L. Hall ----- Charles L. Hall | Principal Accounting Officer | March 30, 2001 |

</TABLE>

92

<PAGE>

SCHEDULE II

ATLANTIC RICHFIELD COMPANY AND CONSOLIDATED SUBSIDIARIES

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

(millions of dollars)

<TABLE>
<CAPTION>

| (Column A) | (Column B) | (Column C) | (Column D) | (Column E) |
|----------------------|------------|------------------|-----------------|---------------------|
| | | Additions | | |
| Balance at beginning | Charged to | Charged to other | Deductions from | Balance at close of |

Page 107

| 2001-03 AR Annual Rpt (10K) for 2000.txt | | | | | |
|--|-----------|--------|----------|----------|--------|
| Description | of period | income | accounts | reserves | period |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Year 2000 | | | | | |
| Amounts deducted from applicable assets: | | | | | |
| Accounts receivable..... | \$ 35 | \$ -- | \$ -- | \$ 2(a) | \$ 33 |
| Affiliated companies accounted for on the equity method..... | 8 | -- | -- | -- | 8 |
| Other investments and long-term receivables.... | -- | 56 | -- | -- | 56 |
| Reserves included in other deferred liabilities and credits and other current liabilities: | | | | | |
| Dismantlement, restoration and reclamation..... | 1,154 | 86 | -- | 928 | 312 |
| Reduction in force..... | 45 | 171 | 60 | 145 | 131 |
| Insurance | 169 | 12 | -- | 27 | 154 |
| Environmental remediation. | 686 | 521 | -- | 109 | 1,098 |
| Other..... | 318 | 64 | 28 | 99 | 311 |
| Year 1999 | | | | | |
| Amounts deducted from applicable assets: | | | | | |
| Accounts receivable..... | \$ 5 | \$ 1 | \$ 29 | \$-- | \$ 35 |
| Affiliated companies accounted for on the equity method..... | 8 | -- | -- | -- | 8 |
| Reserves included in other deferred liabilities and credits and other current liabilities: | | | | | |
| Dismantlement, restoration and reclamation..... | 1,058 | 142 | -- | 46 | 1,154 |
| Reduction in force..... | 131 | 24 | 2 | 112 | 45 |
| Insurance | 174 | 19 | -- | 24 | 169 |
| Environmental remediation. | 870 | 53 | 4 | 241 | 686 |
| Other..... | 395 | 26 | -- | 103 | 318 |
| Year 1998 | | | | | |
| Amounts deducted from applicable assets: | | | | | |
| Accounts receivable..... | \$ 3 | \$ 2 | \$ -- | \$ -- | \$ 5 |
| Affiliated companies accounted for on the equity method..... | 8 | -- | -- | -- | 8 |
| Reserves included in other deferred liabilities and credits and other current liabilities: | | | | | |
| Dismantlement, restoration and reclamation..... | 966 | 64 | 73 | 45 | 1,058 |
| Reduction in force..... | 73 | 185 | 79 | 206 | 131 |
| Insurance | 158 | 48 | -- | 32 | 174 |
| Environmental remediation. | 722 | 234 | -- | 86 | 870 |
| Other..... | 151 | 363 | -- | 119 | 395 |
| </TABLE> | | | | | |

(a) Write-off for uncollectible accounts, net of recoveries.

EXHIBIT INDEX

| Exhibit No. ----- | Description ----- |
|----------------------|---|
| 1 and 2. | Financial Statements and Financial Statement Schedules: These documents are listed in the Index to Consolidated Financial Statements and Financial Statement Schedule. |
| 3. Exhibits: | |
| 2.1 | Agreement and Plan of Merger Among BP Amoco p.l.c., Atlantic Richfield Company and Prairie Holdings, Inc. dated as of March 31, 1999, as amended as of July 12, 1999, filed with the Commission as Exhibit 2 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1999, under File No. 1-1196 and incorporated herein by reference. |
| 2.2 | Amendment No. 1 to Agreement and Plan of Merger, dated as of July 12, 1999, filed with the Commission as Exhibit 2.1 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1999, under File No. 1-1196 and incorporated herein by reference. |
| 3.1 | Restated Certificate of Incorporation of Atlantic Richfield Company ("ARCO") as of June 27, 1994, filed with the Securities and Exchange Commission (the "Commission") as Exhibit 3 to ARCO's report on Form 10-Q for the quarterly period ended June 30, 1994, under File No. 1-1196 and incorporated herein by reference. |
| 3.2 | By-Laws of ARCO as amended through November 23, 1998, filed with the Commission as Exhibit 3 to ARCO's Current Report on Form 8-K dated November 23, 1998, under File No. 1-1196 and incorporated herein by reference. |
| 3.3 | Guarantee dated February 1, 2001 given by BP Amoco p.l.c. in favor of holders of \$2.80 Cumulative Convertible Preference Stock, filed herewith. |
| 3.4 | Notice of Redemption dated March 28, 2001 calling for redemption of all outstanding shares of \$2.80 Cumulative Convertible Preference Stock on April 27, 2001, filed herewith. |
| 3.5 | Guarantee dated February 1, 2001 given by BP Amoco p.l.c. in favor of holders of \$3.00 Cumulative Preference Stock, filed herewith. |
| 3.6 | Notice of Redemption dated March 28, 2001 calling for redemption of all outstanding shares of \$3.00 Cumulative Convertible Preference Stock on April 27, 2001, filed herewith. |
| 4.1 | Indenture dated as of May 15, 1985 between ARCO and The Chase Manhattan Bank, N.A., filed with the Commission on January 27, 1999 as Exhibit 4.2 to ARCO's Registration Statement on Form S-3 (No. 333-71293), under File No. 1-1196 and incorporated herein by reference. |
| 4.2 | Indenture, dated as of January 1, 1992, between ARCO and The Bank of New York, filed with the Commission on January 27, |

2001-03 AR Annual Rpt (10K) for 2000.txt
 1999 as Exhibit 4.3 to ARCO's Registration Statement on
 Form S-3 (No. 333-71293, under File No. 1-1196) and incorpo-
 rated herein by reference.

- 4.3 Instruments defining the rights of holders of long-term debt which is not registered under the Securities Exchange Act of 1934 are not filed because the total amount of securities authorized under any such instrument does not exceed 10% of the consolidated total assets of the Company. The Company agrees to furnish a copy of any such instrument to the Commission upon request.

<PAGE>

| Exhibit No. | Description |
|-------------|--|
| 10.1(a)* | Atlantic Richfield Company Supplementary Executive Retirement Plan, as adopted by the Board of Directors of ARCO on March 26, 1990 and effective as of October 1, 1990, filed with the Commission as Exhibit 10.2 to ARCO's report on Form 10-K for the year 1990, under File No. 1-1196 and incorporated herein by reference. |
| 10.1(b)* | Amendment No. 1 to the Atlantic Richfield Company Supplementary Executive Retirement Plan, effective as of March 22, 1993, filed with the Commission as Exhibit 10 to ARCO's report on Form 10-Q for the quarterly period ended June 30, 1993, under File No. 1-1196 and incorporated herein by reference. |
| 10.1(c)* | Amendment No. 2 to the Atlantic Richfield Company Supplementary Executive Retirement Plan, effective as of February 28, 1994, filed with the Commission as Exhibit 10.1(c) to ARCO's report on Form 10-K for the year 1995, under File No. 1-1196 and incorporated herein by reference. |
| 10.1(d)* | Amendment No. 3 to the Atlantic Richfield Company Supplementary Executive Retirement Plan, effective as of August 1, 1997, filed with the Commission as Exhibit 10.1(d) to ARCO's report on Form 10-K for the year 1997, under File No. 1-1196 and incorporated herein by reference. |
| 10.1(e)* | Amendment No. 4 to the Atlantic Richfield Company Supplementary Executive Retirement Plan, effective as of August 1, 1997, filed with the Commission as Exhibit 10.1 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1998, under File No. 1-1196 and incorporated herein by reference. |
| 10.1(f)* | Amendment No. 5 to the Atlantic Richfield Company Supplementary Executive Retirement Plan, effective as of May 1, 1997, filed with the Commission as Exhibit 10.1(f) to ARCO's report on Form 10-K for the year 1998, under File No. 1-1196 and incorporated herein by reference. |
| 10.2(a)* | Atlantic Richfield Company Executive Deferral Plan, as adopted by the Board of Directors of the Company on March 26, 1990 and effective as of October 1, 1990, filed with the Commission as Exhibit 10.3 to ARCO's report on Form 10-K for the year 1990, under File No. 1-1196 and incorporated herein by reference. |
| 10.2(b)* | Amendment No. 1 to the Atlantic Richfield Company Executive Deferral Plan, effective as of July 27, 1992, filed with the Commission as Exhibit 10.2(b) to ARCO's report on Form 10-K |

2001-03 AR Annual Rpt (10K) for 2000.txt
for the year 1992, under File No. 1-1196 and incorporated
herein by reference.

- 10.2(c)* Amendment No. 2 to the Atlantic Richfield Company Executive Deferral Plan, effective as of February 28, 1994, filed with the Commission as Exhibit 10.2(c) to ARCO's report on Form 10-K for the year 1995, under File No. 1-1196 and incorporated herein by reference.
- 10.2(d)* Amendment No. 3 to the Atlantic Richfield Company Executive Deferral Plan, effective as of January 1, 1997, filed with the Commission as Exhibit 10.2(d) to ARCO's report on Form 10-K for the year 1997, under File No. 1-1196 and incorporated herein by reference.
- 10.2(e)* Amendment No. 4 to the Atlantic Richfield Company Executive Deferral Plan, effective as of January 1, 1997, filed with the Commission as Exhibit 10.2 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1998, under File No. 1-1196 and incorporated herein by reference.

<PAGE>

| Exhibit No. | Description |
|-------------|--|
| 10.2(f)* | Amendment No. 5 to the Atlantic Richfield Company Executive Deferral Plan, effective as of May 1, 1997, filed with the Commission as Exhibit 10.2(f) to ARCO's report on Form 10-K for the year 1998, under File No. 1-1196 and incorporated herein by reference. |
| 10.3(a)* | Atlantic Richfield Company Executive Supplementary Savings Plan II, as amended, restated and effective as of July 1, 1988, filed with the Commission as Exhibit 10.6(b) to ARCO's report on Form 10-K for the year 1988, under File No. 1-1196 and incorporated herein by reference. |
| 10.3(b)* | Amendment No. 1 to the Atlantic Richfield Company Executive Supplementary Savings Plan II, as amended and effective as of January 1, 1989, filed with the Commission as Exhibit 10.6(b) to ARCO's report on Form 10-K for the year 1989, under File No. 1-1196 and incorporated herein by reference. |
| 10.3(c)* | Amendment No. 2 to the Atlantic Richfield Company Executive Supplementary Savings Plan II, as amended and effective as of July 1, 1994, filed with the Commission as Exhibit 10.4(c) to ARCO's report on Form 10-K for the year 1994, under File No. 1-1196 and incorporated herein by reference. |
| 10.3(d)* | Amendment No. 3 to the Atlantic Richfield Company Executive Supplementary Savings Plan II, as amended and effective as of August 5, 1996, filed with the Commission as Exhibit 10.4(d) to ARCO's report on Form 10-K for the year 1996, under File No. 1-1196 and incorporated herein by reference. |
| 10.4* | Atlantic Richfield Company Policy on Financial Counseling and Individual Income Tax Service, as revised and effective January 1, 1997, filed with the Commission as Exhibit 10.4 to ARCO's report on Form 10-K for the year 1998, under File No. 1-1196 and incorporated herein by reference. |
| 10.5(a)* | Annual Incentive Plan, as adopted by the Board of Directors of ARCO on November 26, 1984, and effective as of that date, as amended through February 28, 1994, filed with the Commission |

2001-03 AR Annual Rpt (10K) for 2000.txt
as Exhibit 10.6 to ARCO's report on Form 10-K for the year
1994, under File No. 1-1196 and incorporated herein by
reference.

- 10.5(b)* Amendment No. 3 to the Annual Incentive Plan, effective as of January 1, 1995, filed with the Commission as Exhibit 10.6(b) to ARCO's report on Form 10-K for the year 1995, under File No. 1-1196 and incorporated herein by reference.
- 10.5(c)* Amendment No. 4 to the Annual Incentive Plan, effective as of February 24, 1997, filed with the Commission as Exhibit 10.5(c) to ARCO's report on Form 10-K for the year 1997, under File No. 1-1196 and incorporated herein by reference.
- 10.5(d)* Amendment No. 5 to the Atlantic Richfield Company Annual Incentive Plan, effective as of July 28, 1997, filed with the Commission as Exhibit 10.3 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1998, under File No. 1-1196 and incorporated herein by reference.
- 10.5(e)* Amendment No. 6 to the Atlantic Richfield Company Annual Incentive Plan, effective as of July 28, 1997, filed with the Commission as Exhibit 10.4 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1998, under File No. 1-1196 and incorporated herein by reference.

<PAGE>

- | Exhibit No. | Description |
|-------------|---|
| 10.6(a)* | Atlantic Richfield Company's 1985 Executive Long-Term Incentive Plan, as adopted by the Board of Directors of ARCO on May 28, 1985, and effective as of that date, as amended through July 28, 1997, filed with the Commission as Exhibit 10.6 to ARCO's report on Form 10-K for the year 1997, under File No. 1-1196 and incorporated herein by reference. |
| 10.6(b)* | Amendment No. 10 to the Atlantic Richfield Company 1985 Executive Long-Term Incentive Plan, effective as of July 18, 1997, filed with the Commission as Exhibit 10.5 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1998, under File No. 1-1196 and incorporated herein by reference. |
| 10.6(c)* | Amendment No. 11 to the Atlantic Richfield Company 1985 Executive Long-Term Incentive Plan, effective as of July 18, 1997, filed with the Commission as Exhibit 10.6 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1998, under File No. 1-1196 and incorporated herein by reference. |
| 10.6(d)* | Amendment No. 12 to Atlantic Richfield Company 1985 Executive Long-Term Incentive Plan, effective March 23, 1999, filed with the Commission as Exhibit 10.3 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1999, under File No. 1-1196 and incorporated herein by reference. |
| 10.6(e) | Amendment No. 13 to Atlantic Richfield Company 1985 Executive Long-Term Incentive Plan, effective March 31, 1999, filed with the Commission as Exhibit 10.4 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1999, under File No. 1-1196 and incorporated herein by reference. |
| 10.6(f)* | Amendment No. 14 to Atlantic Richfield Company 1985 Executive |

2001-03 AR Annual Rpt (10K) for 2000.txt
Long-Term Incentive Plan, effective December 10, 1999, filed
herewith.

- 10.6(g)* Amendment No. 15 to Atlantic Richfield Company 1985 Executive Long-Term Incentive Plan, effective February 15, 2000, filed herewith.
- 10.7(a)* Atlantic Richfield Company Executive Life Insurance Plan--Summary Plan Description, effective as of June 28, 1990, filed with the Commission as Exhibit 10.8 to ARCO's report on Form 10-K for the year 1993, under File No. 1-1196 and incorporated herein by reference.
- 10.7(b)* Amendment No. 1 to the Atlantic Richfield Company Executive Life Insurance Plan, effective July 28, 1997, filed with the Commission as Exhibit 10.7(b) to ARCO's report on Form 10-K, under File No. 1-1196 and incorporated herein by reference.
- 10.7(c)* Amendment No. 2 to the Atlantic Richfield Company Executive Life Insurance Plan, effective July 28, 1997, filed with the Commission as Exhibit 10.7(c) to ARCO's report on Form 10-K, under File No. 1-1196 and incorporated herein by reference.
- 10.7(d)* Amendment No. 3 to the Atlantic Richfield Company Executive Life Insurance Plan, effective May 1, 1997, filed with the Commission as Exhibit 10.7(d) to ARCO's report on Form 10-K, under File No. 1-1196 and incorporated herein by reference.
- 10.8(a)* Atlantic Richfield Company Executive Long-Term Disability Plan--Summary Plan Description, effective as of January 1, 1994, filed with the Commission as Exhibit 10.9 to ARCO's report on Form 10-K for the year 1993, under File No. 1-1196 and incorporated herein by reference.

<PAGE>

| Exhibit No. | Description |
|-------------|--|
| 10.8(b)* | Amendment No. 1 to the Atlantic Richfield Company Executive Long-Term Disability Plan, effective as of February 28, 1994, filed with the Commission as Exhibit 10.9(b) to ARCO's report on Form 10-K for the year 1995, under File No. 1-1196 and incorporated herein by reference. |
| 10.8(c)* | Amendment No. 2 to the Atlantic Richfield Company Executive Long-Term Disability Plan, effective May 1, 1997, filed with the Commission as Exhibit 10.8(c) to ARCO's report on Form 10-K, under File No. 1-1196 and incorporated herein by reference. |
| 10.9 | Amendment No. 6 to the Atlantic Richfield Company Special Termination Allowance Plan which contains the current change of control provisions applicable to the Company's executive management team, including its five most highly compensated executive officers, effective as of July 28, 1997, filed with the Commission as Exhibit 10.7 to ARCO's report on Form 10-Q for the quarterly period ended September 30, 1998, under File No. 1-1196 and incorporated herein by reference. |
| 10.10 | Form of Indemnity Agreement filed with the Commission as Exhibit 99 to ARCO's Registration Statement on Form S-3 (No. 333-71293) under File No. 1-1196 and incorporated herein by reference. |
| 21 | Subsidiaries of the Registrant. |

</TEXT>
</DOCUMENT>
<DOCUMENT>
<TYPE>EX-3.3
<SEQUENCE>2
<FILENAME>0002.txt
<DESCRIPTION>GUARANTEE DATED FEBRUARY 1, 2001 (\$2.80)
<TEXT>

<PAGE>

EXHIBIT 3.3

GUARANTEE OF BP AMOCO p.l.c.

BP AMOCO p.l.c., a public limited company duly organized and existing under the laws of England and Wales (herein called "BP", which term includes any successor person to BP AMOCO p.l.c.), hereby irrevocably and unconditionally guarantees to each Holder (as hereinafter defined) at any time of any shares (each, a "Share") of the \$2.80 Preference Stock, par value \$1.00 per share (the "Preference Stock"), of Atlantic Richfield Company, a Delaware corporation ("ARCO"), the due and punctual payment in full as and when due (except to the extent paid by ARCO) of (i) dividends on the Preference Stock, to the extent declared by the ARCO Board of Directors out of funds legally available for the payment of dividends, (ii) the redemption price of any Share that has been properly called for redemption, (iii) in the event of a voluntary or involuntary liquidation of ARCO, the amount (if any) to which the Holder of any Share is entitled under Section 3 of the Preference Stock Terms (as hereinafter defined) and (iv) any additional amounts required to be paid to the holder of any Share pursuant to the Preference Stock Terms (each, a "Guaranteed Payment" and, collectively, the "Guaranteed Payments"). This Guarantee is continuing, irrevocable, unconditional and absolute. BP's obligation to make a Guaranteed Payment may be satisfied by direct payment of the required amounts by BP to the Holders or by causing ARCO to pay such amounts to the Holders. In case of the failure of ARCO to make any such payment, BP hereby agrees to cause any such payment to be made punctually when and as the same shall become due and payable and as if such payment were made by ARCO.

Section 1. Certain Definitions. For the purposes of this Guarantee, the following terms shall have the following respective meanings:

(a) "BP Depository Shares" means American depository shares of BP, each representing the right to receive six BP Ordinary Shares.

(b) "BP Ordinary Shares" means ordinary shares, of nominal value \$0.25 each, of BP.

(c) "Holder" means any person or entity that is a holder of record of Preference Stock.

(d) "Liabilities" means (i) all unsecured liabilities of BP (including, without limitation, liabilities for borrowed money), whether existing on the date hereof or hereafter created, incurred, assumed or guaranteed, whether or not matured, which would be shown in the liabilities section of a balance sheet prepared in accordance with generally accepted accounting principles in the United Kingdom, other than shareholders' interest; and (ii) all liabilities under guarantees.

(e) "Preference Stock Terms" means the preferences, qualifications, privileges, limitations, restrictions and other special or relative rights of the Preference Stock set forth in Article IV, Section C, of the Restated Certificate of Incorporation of ARCO, as it may be amended from time to time in accordance with the provisions thereof.

All accounting terms not otherwise defined herein shall have the meanings assigned to them in accordance with (i) if used in relation to ARCO, generally accepted accounting principles in the United States and (ii) if used in relation to BP, generally accepted accounting principles in the United Kingdom, and all computations provided for herein shall be made in accordance

with such applicable generally accepted accounting principles, consistently applied.

Section 2. Terms of Guarantee.

(a) Obligations Unconditional. BP hereby agrees that its obligations hereunder shall be unconditional, irrespective of the validity, regularity or enforceability of any provision of this Guarantee, the Preference Stock, the certificates representing any Shares or the Preference Stock Terms, the absence of any action to enforce the same, any waiver or consent by the Holder of any Share with respect to any provisions thereof, the rendering of any judgment against ARCO or any action to enforce the same or any other action, inaction, event or circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor.

<PAGE>

(b) Waiver of Certain Rights. BP hereby waives diligence, presentment, demand for payment, filing of claims with a court in the event of amalgamation, arrangement, reorganization, receivership, merger, bankruptcy or liquidation of ARCO, any right to require any suit, action or proceeding first against ARCO, any protest or notice with respect to such Preference Stock or the obligations evidenced hereby and any and all demands whatsoever, and covenants that, except as otherwise specifically provided herein, this Guarantee will not be discharged except by complete performance of the obligations contained in the Preference Stock, the Preference Stock Terms and this Guarantee.

(c) Obligations Not Affected. The obligations, covenants, agreements and duties of BP under this Guarantee shall in no way be affected or impaired by reason of the happening from time to time of any of the following:

(i) the release or waiver, by operation of law or otherwise, of the performance or observance by ARCO of any express or implied agreement, covenant, term or condition relating to the Preference Stock to be performed or observed by ARCO;

(ii) the extension of time for the payment by ARCO of all or any portion of the dividends, distributions, redemption price, liquidation preference or any other amounts payable under the Preference Stock Terms or the extension of time for the performance of any other obligation under, arising out of, or in connection with, the Preference Stock;

(iii) any failure, omission, delay or lack of diligence on the part of any Holder to enforce, assert or exercise any right, privilege, power or remedy conferred on the Holders pursuant to the Preference Stock Terms, or any action on the part of ARCO granting indulgence or extension of any kind;

(iv) the voluntary or involuntary liquidation, dissolution, sale of any collateral, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition or readjustment of debt of, or other similar proceedings affecting, ARCO or any of the assets of ARCO;

(v) any invalidity of, or defect or deficiency in, any Shares; or

(vi) the settlement or compromise of any obligation guaranteed hereby or hereby incurred.

There shall be no obligation of the Holders to give notice to, or obtain any consent of, BP with respect to the happening of any of the foregoing.

(d) Holders May Proceed Directly Against BP. This Guarantee is a guarantee of payment and not of collection. A Holder may enforce this Guarantee directly against BP, and BP waives any right or remedy to require that any action be brought against ARCO or any other person or entity before proceeding against BP. Subject to all waivers herein contained, the right of a holder so to enforce this Guarantee directly shall be without prejudice to the Holders' right at the Holders' option to proceed against ARCO, whether by separate action or by joinder. BP agrees that, except as expressly provided in Section 3 hereof, this Guarantee shall not be discharged except by payment of the Guaranteed Payments in full.

(e) Subrogation. BP shall be subrogated to all (if any) rights of the Holders against ARCO in respect of any amounts paid to the Holders by BP under

this Guarantee and shall have the right to waive payment of any amount of dividends, distributions or other amounts in respect of which payment has been made to the Holders by BP, provided, however, that BP shall not (except to the extent required by mandatory provisions of law) exercise any rights which it may acquire by way of subrogation or any indemnity, reimbursement or other agreement, in all cases as a result of a payment under this Guarantee, if, at the time of any such payment, any amounts are due and unpaid under this Guarantee. If any amounts shall be paid to BP in violation of the preceding sentence, BP agrees to pay over such amount to the Holders.
<PAGE>

(f) Independent Obligations. BP acknowledges that its obligations hereunder are independent of the obligations of ARCO with respect to the Preference Stock and that BP shall be liable as principal and sole debtor under this Guarantee to make Guaranteed Payments pursuant to the terms of this Guarantee notwithstanding the occurrence of any event referred to in clauses (i) through (vi), inclusive, of Section 2(c) hereof.

Section 3. Termination. The obligations of BP pursuant to this Guarantee shall terminate and be of no further force and effect: (a) with respect to any Holder which has exercised his right to convert any of his Shares into BP Ordinary Shares, deliverable in the form of BP Depositary Shares, upon such conversion, but only with respect to such converted Shares; (b) upon the redemption of all Shares then outstanding and the satisfaction of all payment obligations of ARCO under the Preferred Stock Terms, whether by ARCO or by BP under this Guarantee, in respect of such redemption; or (c) upon full payment of the amounts payable to the Holders upon any voluntary or involuntary liquidation of ARCO; provided, however, that this Guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time any Holder of Shares must restore payment of any amounts paid under the Preference Stock or under this Guarantee for any reason whatsoever. BP agrees to indemnify each Holder and hold it harmless from and against any loss it may suffer in such circumstances.

Section 4. Ranking. BP covenants and agrees that for all purposes (including any bankruptcy, insolvency, or reorganization of BP) this Guarantee constitutes an unsecured obligation of BP ranking pari passu with all Liabilities, except to the extent any Liability is expressly made senior or subordinate to this Guarantee. Nothing contained in this Section 4 or elsewhere in this Guarantee or in the Preference Stock Terms is intended to or shall impair, as between BP and the Holders, the obligation of BP, which is absolute and unconditional, to pay the Holders any Guaranteed Payment under this Guarantee as and when the same shall become due and payable in accordance with terms of this Guarantee, nor shall anything herein or therein prevent the Holder from exercising all remedies otherwise permitted by applicable law upon default under this Guarantee.

Section 5. Miscellaneous.

(a) Third Party Beneficiaries. All of BP's representations, warranties and obligations under this Guarantee shall be directly enforceable by the Holders from time to time of Shares. Each Holder is an intended third-party beneficiary of this Guarantee.

(b) Form of Guarantee. The failure of any certificate for Shares to have affixed thereto or to be accompanied by any form of this Guarantee shall not in any way impair or limit the validity or enforceability of this Guarantee on the terms set forth herein.

(c) Successors and Assigns. All guarantees and agreements contained in this Guarantee shall bind the successors, assigns, receivers, trustees and representatives of BP and shall inure to the benefit of the Holders. Except as permitted by Section 5(d) hereof, BP shall not assign its rights or delegate its obligations hereunder without the affirmative vote or written consent of the Holders of not less than two-thirds of the Preference Shares then outstanding.

(d) Amendments. BP shall not, without the affirmative vote or written consent of the Holders of not less than two-thirds of the Shares then outstanding, amend any provision of this Guarantee in any material respect

adverse to the Holders.

(e) Merger, Consolidation or Sale of Assets. BP, without the consent of any Holders, may merge, consolidate or combine with or into another entity (whether by scheme or arrangement or any similar transaction) or may permit another entity to merge, consolidate with or into BP (whether by scheme or arrangement or any similar transaction), and may sell, transfer or lease all or substantially all of BP's assets to another entity, if and only if such entity assumes all obligations and liabilities of BP under this Guarantee.
<PAGE>

(f) Notices. Any notice, request or other communication required or permitted to be given hereunder to BP shall be given in writing by delivering the same against receipt therefor by registered mail, hand delivery or facsimile transmission (confirmed by registered mail), addressed to BP, as follows (and if so given, shall be deemed given when mailed or upon receipt of facsimile confirmation, if sent by facsimile transmission):

BP Amoco p.l.c.
Brittanic House
1 Finsbury Circus
London EC2M 7BA
England
Attention: Company Secretary
Facsimile: (011) 44-207-496-4630

Any notice, request or other communication required or permitted to be given hereunder to the Holders shall be given by BP in the same manner as notices may sent by ARCO to the Holders under the Preference Stock Terms.

(g) Guarantees Not Separately Transferable. This Guarantee is solely for the benefit of the Holders and is not separately transferable from the Shares.

(h) Governing Law. This Guarantee shall be governed by and construed and interpreted in accordance with the laws of England and Wales.

(i) Severability. In case any provision of this Guarantee shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

(j) Headings. This Article and Section headings herein are for convenience only and shall not affect the construction hereof.

IN WITNESS WHEREOF, BP has caused this Guarantee to be duly executed as a deed this 1st day of February, 2001

BP AMOCO p.l.c.

By: /s/ J.G.S. Buchanan
J. Buchanan
Director

By: /s/ P.J. Clayton
P.J. Clayton
Deputy Secretary

</TEXT>
</DOCUMENT>
<DOCUMENT>
<TYPE>EX-3.4
<SEQUENCE>3
<FILENAME>0003.txt
<DESCRIPTION>NOTICE OF REDEMPTION DATED MARCH 28, 2001 (\$2.80)
<TEXT>
<PAGE>

EXHIBIT 3.4

2001-03 AR Annual Rpt (10K) for 2000.txt
TO ALL HOLDERS OF
ARCO \$2.80 Cumulative Convertible Preference Stock
(\$1.00 Par Value)
CUSIP number 048825400

NOTICE IS HEREBY GIVEN THAT Atlantic Richfield Company (the "Company"), pursuant to its rights under the terms of its \$2.80 Cumulative Convertible Preference Stock, par value \$1.00 per share (the "\$2.80 Preference Stock"), as evidenced in the description of the \$2.80 Preference Stock on the share certificates and in the Company's Certificate of Incorporation, has elected to redeem all of the outstanding \$2.80 Preference Stock on April 27, 2001 (the "Redemption Date"). Upon redemption, for each share redeemed the Company shall pay to the holder, as required by the Company's Certificate of Incorporation, the stated redemption price of \$70.00 per share, together with the amount of accrued and unpaid dividends on each such share (whether or not earned or declared) to the Redemption Date, plus a voluntary supplemental cash payment in the amount, if any, required to cause the total per share cash payment to be received by such holder (the "Redemption Payment"), to equal the market value of 7.872 BP American Depositary Shares ("BP ADSs"). The market value shall be determined by the average of the last sale prices for a BP ADS on the New York Stock Exchange over the four trading days ending on the last trading day prior to the Redemption Date. The number 7.872 represents the number of BP ADSs into which each share of \$2.80 Preference Stock is convertible through April 20, 2001. The Redemption Payment shall be payable to the holders of the shares to be redeemed, subject to the surrender of the share certificates therefor, as soon as practicable on or after the Redemption Date. The amount distributed for each share of \$2.80 Preference Stock will be reduced by any amounts required to be withheld by the Company or its agent on account of any applicable withholding taxes.

In accordance with the Company's Certificate of Incorporation, upon redemption of the \$2.80 Preference Stock, the holders thereof will have no interest in or claim against the Company or its agents other than the right to receive the Redemption Payment upon the proper surrender of the shares of \$2.80 Preference Stock, subject to the conversion right described below. On and after the Redemption Date, the Company will ensure that Equiserve Trust Company N.A., P.O. Box 842010, Boston, MA 02284-2010 (the "Redemption Agent") will have the funds required from time to time to pay the Redemption Payment in respect of all shares to be redeemed, upon surrender of share certificates for the \$2.80 Preference Stock pursuant to the instructions in the Election and Transmittal Form sent to all holders of record of shares of \$2.80 Preference Stock. Trading of the \$2.80 Preference Stock on the New York Stock Exchange will cease at the end of trading on April 26, 2001.

Holders intending to exercise their right to convert their shares of \$2.80 Preference Stock into BP ADSs must exercise that option on or before midnight, New York time, on April 20, 2001 by presenting and surrendering the shares to be converted in accordance with the instructions in the Election and Transmittal Form.

The method of delivery of the Preference Stock share certificates and the Election and Transmittal Form is at the option and risk of the \$2.80 Preference Stock shareholder. If forwarded by mail, registered mail is recommended for your protection.

The shares of \$2.80 Preference Stock need not be endorsed if payment is to be made to the registered holder. If payment is to be made to other than the registered holder, transfer requirements will be applicable.

<PAGE>

Remittance of the Redemption Payment will be made as soon as possible after the Redemption Date upon presentation and surrender of the shares of \$2.80 Preference Stock to be redeemed in accordance with the instructions in the Election and Transmittal Form, at the offices of the Redemption Agent, as follows:

<TABLE>

2001-03 AR Annual Rpt (10K) for 2000.txt

<S>

<C>

By Mail:
Equiserve Trust Company N.A.
P.O. Box 842010
Corporate Actions Department
Boston, MA 02284-2010

By Overnight Courier:
Equiserve Trust Company N.A.
40 Campanelli Drive
Braintree, MA 02184
Attn: Corporate Actions

Dept./Arco
</TABLE>

By Hand:
Equiserve Trust Company N.A.
c/o Securities Trust Company & Reporting Services
Attn: Corporate Actions Dept.
100 William Street
New York, NY 10038

Dated: March 28, 2001
Los Angeles, CA

</TEXT>

</DOCUMENT>

<DOCUMENT>

<TYPE>EX-3.5

<SEQUENCE>4

<FILENAME>0004.txt

<DESCRIPTION>GUARANTEE DATED FEBRUARY 1, 2001 (\$3.00)

<TEXT>

<PAGE>

EXHIBIT 3.5

GUARANTEE OF BP AMOCO p.l.c.

BP AMOCO p.l.c., a public limited company duly organized and existing under the laws of England and Wales (herein called "BP", which term includes any successor person to BP AMOCO p.l.c.), hereby irrevocably and unconditionally guarantees to each Holder (as hereinafter defined) at any time of any shares (each, a "Share") of the \$3.00 Preference Stock, par value \$1.00 per share (the "Preference Stock"), of Atlantic Richfield Company, a Delaware corporation ("ARCO"), the due and punctual payment in full as and when due (except to the extent paid by ARCO) of (i) dividends on the Preference Stock, to the extent declared by the ARCO Board of Directors out of funds legally available for the payment of dividends, (ii) the redemption price of any Share that has been properly called for redemption, (iii) in the event of a voluntary or involuntary liquidation of ARCO, the amount (if any) to which the Holder of any Share is entitled under Section 3 of the Preference Stock Terms (as hereinafter defined) and (iv) any additional amounts required to be paid to the holder of any Share pursuant to the Preference Stock Terms (each, a "Guaranteed Payment" and, collectively, the "Guaranteed Payments"). This Guarantee is continuing, irrevocable, unconditional and absolute. BP's obligation to make a Guaranteed Payment may be satisfied by direct payment of the required amounts by BP to the Holders or by causing ARCO to pay such amounts to the Holders. In case of the failure of ARCO to make any such payment, BP hereby agrees to cause any such payment to be made punctually when and as the same shall become due and payable and as if such payment were made by ARCO.

Section 1. Certain Definitions. For the purposes of this Guarantee, the following terms shall have the following respective meanings:

(a) "BP Depositary Shares" means American depositary shares of BP, each representing the right to receive six BP Ordinary Shares.

(b) "BP Ordinary Shares" means ordinary shares, of nominal value \$0.25 each, of BP.

(c) "Holder" means any person or entity that is a holder of record of

Preference Stock.

(d) "Liabilities" means (i) all unsecured liabilities of BP (including, without limitation, liabilities for borrowed money), whether existing on the date hereof or hereafter created, incurred, assumed or guaranteed, whether or not matured, which would be shown in the liabilities section of a balance sheet prepared in accordance with generally accepted accounting principles in the United Kingdom, other than shareholders' interest; and (ii) all liabilities under guarantees.

(e) "Preference Stock Terms" means the preferences, qualifications, privileges, limitations, restrictions and other special or relative rights of the Preference Stock set forth in Article IV, Section C, of the Restated Certificate of Incorporation of ARCO, as it may be amended from time to time in accordance with the provisions thereof.

All accounting terms not otherwise defined herein shall have the meanings assigned to them in accordance with (i) if used in relation to ARCO, generally accepted accounting principles in the United States and (ii) if used in relation to BP, generally accepted accounting principles in the United Kingdom, and all computations provided for herein shall be made in accordance with such applicable generally accepted accounting principles, consistently applied.

Section 2. Terms of Guarantee.

(a) Obligations Unconditional. BP hereby agrees that its obligations hereunder shall be unconditional, irrespective of the validity, regularity or enforceability of any provision of this Guarantee, the Preference Stock, the certificates representing any Shares or the Preference Stock Terms, the absence of any action to enforce the same, any waiver or consent by the Holder of any Share with respect to any provisions thereof, the rendering of any judgment against ARCO or any action to enforce the same or any other action, inaction, event or circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor.

<PAGE>

(b) Waiver of Certain Rights. BP hereby waives diligence, presentment, demand for payment, filing of claims with a court in the event of amalgamation, arrangement, reorganization, receivership, merger, bankruptcy or liquidation of ARCO, any right to require any suit, action or proceeding first against ARCO, any protest or notice with respect to such Preference Stock or the obligations evidenced hereby and any and all demands whatsoever, and covenants that, except as otherwise specifically provided herein, this Guarantee will not be discharged except by complete performance of the obligations contained in the Preference Stock, the Preference Stock Terms and this Guarantee.

(c) Obligations Not Affected. The obligations, covenants, agreements and duties of BP under this Guarantee shall in no way be affected or impaired by reason of the happening from time to time of any of the following:

(i) the release or waiver, by operation of law or otherwise, of the performance or observance by ARCO of any express or implied agreement, covenant, term or condition relating to the Preference Stock to be performed or observed by ARCO;

(ii) the extension of time for the payment by ARCO of all or any portion of the dividends, distributions, redemption price, liquidation preference or any other amounts payable under the Preference Stock Terms or the extension of time for the performance of any other obligation under, arising out of, or in connection with, the Preference Stock;

(iii) any failure, omission, delay or lack of diligence on the part of any Holder to enforce, assert or exercise any right, privilege, power or remedy conferred on the Holders pursuant to the Preference Stock Terms, or any action on the part of ARCO granting indulgence or extension of any kind;

(iv) the voluntary or involuntary liquidation, dissolution, sale of any collateral, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition or readjustment of debt of, or other similar proceedings affecting, ARCO or

any of the assets of ARCO;

(v) any invalidity of, or defect or deficiency in, any Shares; or

(vi) the settlement or compromise of any obligation guaranteed hereby or hereby incurred.

There shall be no obligation of the Holders to give notice to, or obtain any consent of, BP with respect to the happening of any of the foregoing.

(d) Holders May Proceed Directly Against BP. This Guarantee is a guarantee of payment and not of collection. A Holder may enforce this Guarantee directly against BP, and BP waives any right or remedy to require that any action be brought against ARCO or any other person or entity before proceeding against BP. Subject to all waivers herein contained, the right of a holder so to enforce this Guarantee directly shall be without prejudice to the Holders' right at the Holders' option to proceed against ARCO, whether by separate action or by joinder. BP agrees that, except as expressly provided in Section 3 hereof, this Guarantee shall not be discharged except by payment of the Guaranteed Payments in full.

(e) Subrogation. BP shall be subrogated to all (if any) rights of the Holders against ARCO in respect of any amounts paid to the Holders by BP under this Guarantee and shall have the right to waive payment of any amount of dividends, distributions or other amounts in respect of which payment has been made to the Holders by BP, provided, however, that BP shall not (except to the extent required by mandatory provisions of law) exercise any rights which it may acquire by way of subrogation or any indemnity, reimbursement or other agreement, in all cases as a result of a payment under this Guarantee, if, at the time of any such payment, any amounts are due and unpaid under this Guarantee. If any amounts shall be paid to BP in violation of the preceding sentence, BP agrees to pay over such amount to the Holders.

<PAGE>

(f) Independent Obligations. BP acknowledges that its obligations hereunder are independent of the obligations of ARCO with respect to the Preference Stock and that BP shall be liable as principal and sole debtor under this Guarantee to make Guaranteed Payments pursuant to the terms of this Guarantee notwithstanding the occurrence of any event referred to in clauses (i) through (vi), inclusive, of Section 2(c) hereof.

Section 3. Termination. The obligations of BP pursuant to this Guarantee shall terminate and be of no further force and effect: (a) with respect to any Holder which has exercised his right to convert any of his Shares into BP Ordinary Shares, deliverable in the form of BP Depositary Shares, upon such conversion, but only with respect to such converted Shares; (b) upon the redemption of all Shares then outstanding and the satisfaction of all payment obligations of ARCO under the Preferred Stock Terms, whether by ARCO or by BP under this Guarantee, in respect of such redemption; or (c) upon full payment of the amounts payable to the Holders upon any voluntary or involuntary liquidation of ARCO; provided, however, that this Guarantee shall continue to be effective or shall be reinstated, as the case may be, if at any time any Holder of Shares must restore payment of any amounts paid under the Preference Stock or under this Guarantee for any reason whatsoever. BP agrees to indemnify each Holder and hold it harmless from and against any loss it may suffer in such circumstances.

Section 4. Ranking. BP covenants and agrees that for all purposes (including any bankruptcy, insolvency, or reorganization of BP) this Guarantee constitutes an unsecured obligation of BP ranking pari passu with all Liabilities, except to the extent any Liability is expressly made senior or subordinate to this Guarantee. Nothing contained in this Section 4 or elsewhere in this Guarantee or in the Preference Stock Terms is intended to or shall impair, as between BP and the Holders, the obligation of BP, which is absolute and unconditional, to pay the Holders any Guaranteed Payment under this Guarantee as and when the same shall become due and payable in accordance with terms of this Guarantee, nor shall anything herein or therein prevent the Holder from exercising all remedies otherwise permitted by applicable law upon default under this Guarantee.

Section 5. Miscellaneous.

(a) Third Party Beneficiaries. All of BP's representations, warranties and obligations under this Guarantee shall be directly enforceable by the Holders from time to time of Shares. Each Holder is an intended third-party beneficiary of this Guarantee.

(b) Form of Guarantee. The failure of any certificate for Shares to have affixed thereto or to be accompanied by any form of this Guarantee shall not in any way impair or limit the validity or enforceability of this Guarantee on the terms set forth herein.

(c) Successors and Assigns. All guarantees and agreements contained in this Guarantee shall bind the successors, assigns, receivers, trustees and representatives of BP and shall inure to the benefit of the Holders. Except as permitted by Section 5(d) hereof, BP shall not assign its rights or delegate its obligations hereunder without the affirmative vote or written consent of the Holders of not less than two-thirds of the Preference Shares then outstanding.

(d) Amendments. BP shall not, without the affirmative vote or written consent of the Holders of not less than two-thirds of the Shares then outstanding, amend any provision of this Guarantee in any material respect adverse to the Holders.

(e) Merger, Consolidation or Sale of Assets. BP, without the consent of any Holders, may merge, consolidate or combine with or into another entity (whether by scheme or arrangement or any similar transaction) or may permit another entity to merge, consolidate with or into BP (whether by scheme or arrangement or any similar transaction), and may sell, transfer or lease all or substantially all of BP's assets to another entity, if and only if such entity assumes all obligations and liabilities of BP under this Guarantee.

<PAGE>

(f) Notices. Any notice, request or other communication required or permitted to be given hereunder to BP shall be given in writing by delivering the same against receipt therefor by registered mail, hand delivery or facsimile transmission (confirmed by registered mail), addressed to BP, as follows (and if so given, shall be deemed given when mailed or upon receipt of facsimile confirmation, if sent by facsimile transmission):

BP Amoco p.l.c.
Brittanic House
1 Finsbury Circus
London EC2M 7BA
England
Attention: Company Secretary
Facsimile: (011) 44-207-496-4630

Any notice, request or other communication required or permitted to be given hereunder to the Holders shall be given by BP in the same manner as notices may sent by ARCO to the Holders under the Preference Stock Terms.

(g) Guarantees Not Separately Transferable. This Guarantee is solely for the benefit of the Holders and is not separately transferable from the Shares.

(h) Governing Law. This Guarantee shall be governed by and construed and interpreted in accordance with the laws of England and Wales.

(i) Severability. In case any provision of this Guarantee shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

(j) Headings. This Article and Section headings herein are for convenience only and shall not affect the construction hereof.

IN WITNESS WHEREOF, BP has caused this Guarantee to be duly executed as a deed this 1st day of February, 2001

BP AMOCO p.l.c.

By: /s/ J.G.S. Buchanan

Dr. J.G.S. Buchanan
Director

/s/ P.J. Clayton
By: _____

P.J. Clayton
Deputy Secretary

</TEXT>
</DOCUMENT>
<DOCUMENT>
<TYPE>EX-3.6
<SEQUENCE>5
<FILENAME>0005.txt
<DESCRIPTION>NOTICE OF REDEMPTION DATED MARCH 28, 2001 (\$3.00)
<TEXT>

<PAGE>

EXHIBIT 3.6

TO ALL HOLDERS OF
ARCO \$3.00 Cumulative Convertible Preference Stock
(\$1.00 Par Value)
CUSIP number 048825202

NOTICE IS HEREBY GIVEN THAT Atlantic Richfield Company (the "Company"), pursuant to its rights under the terms of its \$3.00 Cumulative Convertible Preference Stock, par value \$1.00 per share (the "\$3.00 Preference Stock"), as evidenced in the description of the \$3.00 Preference Stock on the share certificates and in the Company's Certificate of Incorporation, has elected to redeem all of the outstanding \$3.00 Preference Stock on April 27, 2001 (the "Redemption Date"). Upon redemption, for each share redeemed the Company shall pay to the holder, as required by the Company's Certificate of Incorporation, the stated redemption price of \$82.00 per share, together with the amount of accrued and unpaid dividends on each such share (whether or not earned or declared) to the Redemption Date, plus a voluntary supplemental cash payment in the amount, if any, required to cause the total per share cash payment to be received by such holder (the "Redemption Payment"), to equal the market value of 22.304 BP American Depositary Shares ("BP ADSs"). The market value shall be determined by the average of the last sale prices for a BP ADS on the New York Stock Exchange over the four trading days ending on the last trading day prior to the Redemption Date. The number 22.304 represents the number of BP ADSs into which each share of \$3.00 Preference Stock is convertible through April 20, 2001. The Redemption Payment shall be payable to the holders of the shares to be redeemed, subject to the surrender of the share certificates therefor, as soon as practicable on or after the Redemption Date. The amount distributed for each share of \$3.00 Preference Stock will be reduced by any amounts required to be withheld by the Company or its agent on account of any applicable withholding taxes.

In accordance with the Company's Certificate of Incorporation, upon redemption of the \$3.00 Preference Stock, the holders thereof will have no interest in or claim against the Company or its agents other than the right to receive the Redemption Payment upon the proper surrender of the shares of \$3.00 Preference Stock, subject to the conversion right described below. On and after the Redemption Date, the Company will ensure that EquiServe Trust Company N.A., P.O. Box 842010, Boston, MA 02284-2010 (the "Redemption Agent") will have the funds required from time to time to pay the Redemption Payment in respect of all shares to be redeemed, upon surrender of share certificates for the \$3.00 Preference Stock pursuant to the instructions in the Election and Transmittal Form sent to all holders of record of shares of \$3.00 Preference Stock. Trading of the \$3.00 Preference Stock on the New York Stock Exchange will cease at the end of trading on April 26, 2001.

Holders intending to exercise their right to convert their shares of \$3.00 Preference Stock into BP ADSs must exercise that option on or before midnight,

New York time, on April 20, 2001 by presenting and surrendering the shares to be converted in accordance with the instructions in the Election and Transmittal Form.

The method of delivery of the Preference Stock share certificates and the Election and Transmittal Form is at the option and risk of the \$3.00 Preference Stock shareholder. If forwarded by mail, registered mail is recommended for your protection.

The shares of \$3.00 Preference Stock need not be endorsed if payment is to be made to the registered holder. If payment is to be made to other than the registered holder, transfer requirements will be applicable.

<PAGE>

Remittance of the Redemption Payment will be made as soon as possible after the Redemption Date upon presentation and surrender of the shares of \$3.00 Preference Stock to be redeemed in accordance with the instructions in the Election and Transmittal Form, at the offices of the Redemption Agent, as follows:

<TABLE>

<S>

<C>

By Mail:
EquiServe Trust Company N.A.
P.O. Box 842010
Corporate Actions Department
Boston, MA 02284-2010

By Overnight Courier:
EquiServe Trust Company N.A.
40 Campanelli Drive
Braintree, MA 02184
Attn: Corporate Actions

Dept./Arco
</TABLE>

By Hand:
EquiServe Trust Company N.A.
c/o Securities Trust Company & Reporting Services
Attn: Corporate Actions Dept.
100 William Street
New York, NY 10038

Dated: March 28, 2001
Los Angeles, CA

</TEXT>

</DOCUMENT>

<DOCUMENT>

<TYPE>EX-21

<SEQUENCE>6

<FILENAME>0006.txt

<DESCRIPTION>SUBSIDIARIES OF REGISTRANT

<TEXT>

<PAGE>

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

<TABLE>

<CAPTION>

Percentage of
Voting
Securities
Owned by
Immediate
Parent

Name of Company

Organized
Under Laws of

<S>

<C>

<C>

Atlantic Richfield Company (Registrant).....

Delaware

Subsidiaries of Registrant in consolidated
financial statements, as of December 31, 2000:

| | | |
|-----------------------------|----------|-------|
| Vastar Resources, Inc. | Delaware | 100.0 |
| ARCO British Limited..... | Delaware | 100.0 |

</TABLE>

The subsidiaries whose names are not listed above, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

</TEXT>

</DOCUMENT>

</SEC-DOCUMENT>

-----END PRIVACY-ENHANCED MESSAGE-----